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# DEMOCRATIC DECENTRALIZATION STRATEGIC ASSESSMENT: INDONESIA

## FINAL REPORT

FEBRUARY 2009

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## **DISCLAIMER**

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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# ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
BIGG	Building Institutions for Good Governance
CALGAP	Canada Aceh Local Government Assistance Program
CBO	Community Based Organization
CSO	Civil Society Organization
DCHA/DG	Democracy and Governance Office of the Democracy, Conflict Mitigation, and Humanitarian Assistance Bureau
DPD	<i>Dewan Perakilan Daerah</i>
DPOD	Advisory Board on Regional Autonomy
DPR	<i>Dewan Perwakilan Rakyat</i> (House of People’s Representatives)
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i>
DTI	Department of Trade and Industry
GTZ	<i>Deutsche Gesellschaft für Technische Zusammenarbeit</i>
IRDA	Indonesia Rapid Decentralization Appraisal
KPPOD	<i>Komite Pemantauan Pelaksanaan Otonomi Daerah</i> (Implementation Monitoring Committee of Regional Autonomy)
LGSP	Local Governance Support Program (USAID)
LIPI	Indonesian Institute of Science
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
NDI	National Democratic Institute
NU	<i>Nahdatul Ulama</i>
NGO	Nongovernmental Organization
PSEP	Public Service Excellence Program
UNDP	United Nations Development Program
USAID	United States Agency for International Development

# EXECUTIVE SUMMARY

For a generation before democracy's arrival in 1998, Indonesia was ruled by a well-articulated authoritarian system, characterized by highly centralized governance. The center piece of the transition to democracy was the country's embrace of decentralization. Indonesia's first decentralization/local governance law was passed barely a year after the arrival of democracy in mid-1998. The Regional Autonomy Law passed in 1999 laid a foundation for democratic local governance through competitive elections and made new leaders responsible for 26 governance functions. Ten years have passed since then, and eight years since the first round of local elections and the Big Bang provided subnational units the political, administrative, financial, and personnel wherewithal needed to fulfill their new responsibilities. Elected councils were given significant legislative and oversight responsibilities and executives were empowered to oversee large staffs. Multiple successive presidential administrations have followed through on this commitment to democratic local governance. The new subnational units are a heterogeneous grouping, varying greatly in natural and human resources, infrastructure, access to the outside world, and population size.

Despite the challenges of an abrupt transition, some local governments responded quickly to new opportunities to pass laws and establish policies. However, concerns for stability, peace, and safety seem to be responsible for the persistence of certain practices dating back to the era of centralized authoritarianism. Territorial forces, centralized police, and off-budget military spending continue largely unchanged. Golkar, the former dominant single party, has recreated itself as a successful mass party, able to win contested elections.

Yet every day in communities across the country, "governance happens" and progress is being made. Elections are held and vigorously contested. In many places, budgeting and law making are becoming more transparent. CSOs are bridging the gap between politicians and citizens. In some places, concerted efforts are being made to improve services. Indonesia has emerged as a regional leader in decentralization in several respects. Examples include the broad range and importance of functions (26 in all, including basic education, health services, agriculture, transportation, and infrastructure) assigned to subnational governments; a bold experiment in transferring 2.5 million central government employees to provinces and local governments; and a concerted effort to enhance local accountability by introducing direct election of local executives. Democracy "comes home" for Indonesian citizens through opportunities to vote in local elections, attend council and commission meetings, or make direct contact with politicians and administrators, to help shape—often through CSO intermediaries—budgets and local ordinances, critique local service delivery, and participate in the early stages of local planning.

In 1998-99, when the first decentralization law was debated and passed, it was not surprising that decision makers perceived the unity of the state as under threat. Independence movements were under way in Aceh, Papua, Riau, and East Timor. Then inter-ethnic and inter-religious conflicts broke out under mysterious circumstances. Concerns about violence and disintegration have continued, and maintaining stability remains a dominant objective of Indonesian decentralization in 2008. However, it is a reasonable conjecture that stability concerns will become less pronounced over the next few years in favor of greater priority being placed on democratization.

Four concepts—*autonomy*, *accountability*, *capacity*, and *authority*—are applied in this report to examine the current status of Indonesian decentralization:

- For decentralization to be able to deliver the concrete benefits needed to render the process more democratic, it is essential that the **autonomy** of local government be increased. Local government autonomy is earned over time, the product of trust on the part of central government officials, potential civil society partners, the business community, and ordinary citizens. Ultimately, provinces, cities, and regencies must seize the initiative, proving they are entitled to greater autonomy through consistent performance in service delivery, significant initiative in articulating local visions and action strategies, and by local generation of a substantial portion of their revenues. Insufficient autonomy is a major deficit that will take several years to overcome and will require confidence building through improved performance.
- **Accountability** in subnational governance is a complex, multi-pronged process, buttressed by formal reporting, approval, and auditing systems imposed by central government; by demands from NGOs, media, and ordinary citizens for greater responsiveness; and by honest efforts of local officials to respond to demands. The fundamental relationship, between citizen/voters and local executives and legislators they elect, is at the core of what may be termed the long route to accountability. But elections in and of themselves are a blunt instrument for accountability, especially when it involves offices of complex local government that deal with tradeoffs between multiple demands and priorities. A more immediate form of accountability, which can be termed the short route to accountability, may be achieved through citizen participation in specific planning, implementation, and oversight activities, rather than just through the electoral process. This short route to accountability involves more immediate interactions regarding specific single service areas rather than the bundled representation issues associated with elections. At this point, Indonesia has not yet exhibited a proclivity towards this type of accountability, and citizens tend not to hold their local officials responsible for specific services. Accountability is an area of **major deficit**, where it is possible to work with partners and build on mechanisms already in place.
- No Indonesian subnational governments have sufficient human and organizational **capacity** to fully exercise authorities provided under law. A first generation of elected officials, CSOs, and citizens are governance novices only beginning to learn the skills of democratic decentralization. This is a **moderate deficit** area both for governance novices and for local administrators. The group of governance novices, particularly ordinary citizens, is too large and diverse to be the subject of classic training programs. Perhaps the most important interventions to upgrade local capacity will be efforts to analyze performance incentives for local staff, and experiment with management approaches that require better performance.
- Despite legal and administrative shortcomings, subnational governments have adequate **authority** to proceed with their work and therefore the team found that shortcomings in authority represent a **moderate, not a major deficit**. Still, there are areas where the authority of subnational governments have been undermined by conflicting regulations, frequently altered procedures, competing services by central government units, and unfunded mandates. In addition, despite a broad commitment to decentralization, national institutions and political parties are reluctant to cede their power, and have made few efforts to adjust their activities to the new context. Hence the *de jure* authorities granted to local governments by the enabling regulatory framework generally exceed the *de facto* authorities that exist in practice.

Having identified and gauged the key decentralization deficits in Indonesia, the recommended strategic approach is for a USAID/Indonesia local governance program to concentrate on the promotion of **autonomy** and **accountability**. The autonomy objective would seek to improve service delivery in select sectors, increase community participation in setting visions and planning, and enhance the collection of own source revenues. The best way for the central government to support autonomy for local governments is to grant them the right to assess and collect taxes with significant potential for expansion,



and to encourage them to bargain with local businesses and ordinary citizens to gradually ratchet up taxes and fees in exchange for better services and more favorable policies. Secondly, the Mission strategy would ideally focus on improving the accountability of local government, specifically in regards to transparency and oversight of service delivery in select sectors.

The challenge of broadly improving the **capacity** of local government officials to better carry out their expanding duties needs to above all be addressed by the GOI, in part through putting in place more positive incentives for performance. The Mission might be able to provide some carefully targeted support in improving capacity in regards to the select service areas, but the Indonesians themselves are in the best position to address the capacity deficit. Finally, while there still remain problems with the **authority** of subnational government, this area of intervention is not recommended as being likely to lead to the most promising impacts at this time.

## OPERATIONAL GUIDELINES

Indonesian policymakers, local politicians and administrators, civil society activists, and ordinary citizens need a clear vision of how the *best* subnational governments in Indonesia actually perform. With a need for high performance models in mind, the assessment team envisions a follow-on USAID decentralization/local governance program that works with a few provinces and modest number of their constituent cities and regencies. The following operational guidelines are suggested in order to maximize the cumulative impact of the recommended programmatic interventions:

*Build positive models of democratic local governance:* Indonesians need a better understanding of where the decentralization process is going, and how a well-run local government should actually work. Indonesians are looking for a few coherent examples of best performing provinces, cities, and regencies. Ultimately, the best approach will be to assist Indonesians in selected communities to develop their own *authentic examples* of best performing local governments.

*Concentrate project activities in a few provinces:* The most efficient way to do this is to work in a few provinces: at the provincial level, with selected cities and regencies, and where there are clear advantages, with selected *desa* governments. The selection of three provinces will provide an adequate cross-section. Concentrating activities within a concentrated territorial scope is the most efficient (i.e. less costly) means of generating spill-over effects that promote further momentum in the broader Indonesian decentralization process.

*Organize around a few sectoral management areas:* To ensure field activities both *utilize* and *reach beyond* democratic processes, and achieve direct impacts on local residents, field activities should focus on no more than two or three service delivery sectors. The sectors we propose for the Mission's consideration are basic education, community-level health services, environmental management, and improving the policy framework for small and medium business.

*Work up-and-down and across the governance system:* By using service sectors as a focus for building stronger local governments, it will be possible to work “up-and-down” to help provinces, cities, regencies, and *desa* find their separate and complementary roles in providing basic education, delivering health services, improving environmental management, or promoting growth of small and medium businesses. Furthermore, it will be possible to work across the breadth of civil society—e.g., by working with national-level NGOs, local CBOs, local media, provincial universities, and religious associations—as well as reaching out to personnel of deconcentrated government offices while undertaking field activities.

*Bargain for a “certified experimental” setting:* Rather than efforts to perfect the framework with additional generations of local government laws and regulations, we believe the best investment of donor and Indonesian time and money will be to develop a few of the coherent, positive models mentioned

above. To ensure maximum learning from that effort, we suggest that serious effort be given to undertaking field work as a series of carefully observed “certified experiments.” Project managers and staff, local government, and civil society partners should all feel they have the needed freedom to test innovations and, occasionally, fail. We envision an advisory/oversight board consisting of senior policymakers, representatives of local government associations, Indonesian academics, and international experts to meet at least twice a year to observe progress made and to begin to develop coherent descriptions of how high performing governments succeed.

## PROGRAMMATIC RECOMMENDATIONS

Work at the **subnational level** should include:

*Emphasize local revenue generation:* We recommend adopting work with local governments on enhancing their skills in generating local revenues as a major programmatic theme. If there is sufficient movement within the Indonesian government, this work might focus mainly on helping cities and regencies to significantly increase their income from the Land and Building Tax.

*Support and advise local government associations as they seek an effective political role in national policymaking:* While local government associations already exist, and offer useful services to their members, they have not yet assumed fully effective roles in the politics of policymaking. USAID may wish to explore the concept of an “association of associations” with the current groups, and assist by supplying expertise on policy research and legal drafting on a temporary basis.

*Work to reform policymaking from the “outside in”:* It may be worthwhile to entice central government officials toward greater openness in policymaking by offering ready-made opportunities for them to consult in project provinces; e.g., project staff can organize and facilitate policy-oriented focus group discussions with local citizens and local government employees, and arrange dialogues with DPRD members from across the province. In addition, a local governance program should coordinate with the Decentralization Support Facility (DSF), which is an organization with an Indonesian board of directors that carries out studies on decentralization in the country.

As needed, support activities can be undertaken in the **national arena**:

*Get involved in national level policy when local circumstances indicate a need to do so:* If specific opportunities arise to play a useful role in shaping national decentralization policy, e.g., a chance to help a few local governments test the feasibility of direct local control over the land and building tax, USAID should move with alacrity. However, we would recommend leaving generalized efforts to “get decentralization policy on the right track” to other donors.

Subnational governments can be assisted in building partnerships in the **civil society arena**:

*Help local governments develop viable strategies for engaging with civil society:* Many subnational governments already work with NGOs and universities on various substantive and community initiatives. However, local governments tend to be more open to “partnering” with civil society when the latter bring tangible assets to joint undertakings. As Indonesia’s decentralized governance becomes more democratic, it is also important that local governments serve as a forum for advocacy efforts by CSOs seeking to pursue their interests by influencing local public decision-making. A greater integration of a range of civil society actors into the local government process will be an important element in increasing accountability.

*Help civil society partners to build “next generation” skills:* NGOs, universities, business associations, and other civil society organizations need to respond to the needs of local governments by developing new knowledge and skills areas. NGOs need to reach beyond the social science and humanities graduates they usually hire, seeking job candidates trained in business, economics, engineering, and applied science.

They also need to develop up-to-date skills in such skills areas as web searches, facilitating public dialogues, and negotiating working agreements with local government partners. Universities need to catalogue the full range of technical and managerial skills they can share with local governments. USAID may wish to support selected civil society or university partners to upgrade their skills as they work in project provinces.

## RESULT FRAMEWORK RECOMMENDATIONS

The highest level objective would thus be *more transparent, responsive and effective local government*.

Under this, two Intermediate Results are proposed:

*IR 1: Greater transparency and accountability in the delivery of local services*

- More transparent information available to public in regards to service delivery
- Central oversight systems exist to monitor local government performance in select service areas
- Greater citizen participation in overseeing local government

*IR2: Increased autonomy for local governments to respond to citizen needs and demands.*

- Improvement in own source subnational revenue generation
- Number of concrete plans for service extension or quality improvement prepared and implemented
- Increased ability of local governments to comply with national standards
- Number of public-private partnerships for service delivery.

The above democracy objectives of decentralization are currently on the cutting edge of decentralization in Indonesia and while more difficult to achieve than the stability-oriented results of the first generation of Indonesian decentralization, are likely to do more to qualitatively improve the process of reform. Achieving development results from a local governance platform, however, is also essential to the sustainability of the decentralization process, since the tangible developmental benefits from improved local governance will help build confidence and momentum to advance the reform process further.

## CONCLUSION

The Government of Indonesia has successfully inaugurated a decentralization process that has overcome initial hurdles of doubt over democratic reform. A critical threshold has been passed that allows for new horizons in improving the democratic qualities of local governance and in achieving tangible benefits for communities in their daily lives. The results framework proposed here goes well beyond the first generation of decentralization reform in Indonesia to not only consolidate and build on gains made to date, but to take important strides in rendering local government more participatory, effective, and responsive.

# INTRODUCTION

In December 2008, a five-member team undertook an assessment of Democratic Decentralization in Indonesia on behalf of United States Agency for International Development (USAID)/Indonesia and the Democracy and Governance Office of the Democracy, Conflict Mitigation, and Humanitarian Assistance Bureau (DCHA/DG) in USAID/Washington. Team members reviewed a large collection of documents on the recent history and current status of Indonesian decentralization prior to field work; undertook 30 interview-discussions in Jakarta with more than 50 policymakers, politicians, activists, scholars, and other observers; and visited provincial, district, and village government offices in Central Java (speaking with an additional 20 individuals). This assessment is the first of a series that will apply an analytical framework developed in DCHA/DG.<sup>1</sup>

The assessment begins by identifying salient features of the Indonesian context and tracing the historical evolution of decentralization in the country. This allows for an appreciation of the goals that prompted the government to engage in decentralization reform. Section 2 of the assessment identifies the key decentralization deficits that continue to confront reform by examining the four principal characteristics of Democratic Decentralized Local Governance (DDLG), namely authority, autonomy, accountability, and capacity. This leads to an identification of the range of constraints that might be addressed by an assistance program. Section 3 then examines the feasibility of various types of reform by utilizing a political economy optic that identifies the key actors and the interests that condition their perspective on decentralization reform. Distinguishing winners and losers from decentralization helps to gauge the likely support for and opposition to various paths of reform. Section 4 delves into the three institutional arenas in which the decentralization process plays out, the national, subnational, and civil society arenas. This institutional analysis further helps prioritize which potential approaches to reform are most likely to gain traction. Finally, in Section 5, programmatic recommendations are advanced.

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<sup>1</sup> For an overview of the Democratic Decentralization and Local Governance Framework, see Appendix C.

# 1.0 COUNTRY CONTEXT

## 1.1 SHORT HISTORY OF DECENTRALIZED GOVERNANCE IN INDONESIA

Prior to the arrival of Dutch traders and colonial officials at the beginning of the seventeenth century, the Indonesian archipelago was a diverse collection of kingdoms (beginning in the fourth century), sultanates (beginning in the thirteenth century), independent communities, and primitive tribes. Kingdoms in Java and Bali were among the preeminent hydraulic, rice-producing civilizations of their time. Traditional Malay sultanates generally occupied river mouths, and were supported through a mix of marine and agrarian production systems. Small islands and isolated interiors of larger islands were often independent of control by kingdoms or sultanates and, although less “civilized” than larger units, were more likely to evince the qualities of social equality and political openness that can be considered a form of pre-adaptation to democratic life.

The Dutch were primarily interested in trade. Apart from concerted efforts in Java to force rice farmers to produce cash crops (the “cultivation policy”) that also brought significant socio-political change and realignment of villages, they showed relatively little interest in transforming community life. In any case, large portions of the outer islands were not brought under colonial control until the late nineteenth or early twentieth century. The beginning of a more enlightened colonial policy (the “ethical policy”) in 1901 brought greater emphasis on the physical welfare of subjects through irrigation, transmigration, education, but placed no emphasis on providing opportunities for Indonesians to enter representative politics, even at the local level.

The first 15 years of Indonesian independence (1950-1965) were a period of sustained unrest, the result of controversy regarding Indonesia’s future as a secular or Islamic state, rebellions in outlying provinces, hotly contested parliamentary elections, a political standoff with Malaysia, and the pervasive influence of President Sukarno, who imposed a system of “guided democracy” in 1958. While the latter system was grounded ideologically on the image of egalitarian villages ruled by consensus decision making, there were few opportunities for community governance to grow during the brief, unsettled period up to 1965. In that year, the military organized a violent repression campaign that allegedly killed hundreds of thousands of communists and their sympathizers, and began laying the groundwork for the *Orde Baru* (New Order).

For a generation before democracy’s arrival in 1998, the *Orde Baru* was firmly in place, buttressed until near its end by high economic growth rates. It was a well-articulated authoritarian system, characterized by opaque, highly centralized governance. Territorial military forces were spread across civilian jurisdictions and empowered to defend the unitary state. Administrators of civilian jurisdictions were appointed from the officer corps.

Under the *Orde Baru*, an administrative system of provinces (*propinsi*), cities (*kotamadya*, generally shortened to *kota*), rural regencies (*kabupaten*), villages (*desa*), and urban neighborhoods (*kelurahan*) was set in place. All levels of subnational governance were under the tight control of the central administration, and regencies, cities, and provinces operated under the direction of military officers, generally of ranks ranging from major to brigadier general. Elections for local councils took place, but candidates were subject to pre-approval by the single government party (Golkar).

## 1.2 THE POLITICAL SETTING AT THE START OF DEMOCRATIC DECENTRALIZATION

While many sociopolitical forces were in play, it was the economic downturn known as the Asian Economic Crisis that began to expose the weaknesses of the *Orde Baru* in late 1997. Growth slowed dramatically, and recovery efforts exposed high levels of corruption among Soeharto family members and their cronies. President Soeharto sought to buttress his weakened position through a New Order-style election, but a “victory” did little to restore his credibility. In May 1998, he ceded power to Vice President Jusuf Habibie. Habibie, a non-military technocrat and engineer, proceeded to introduce democratic reforms.

Indonesia’s transition to democracy faced innumerable challenges. Not least among these were the need to demonstrate that *reformasi*, a new, democratic approach to governance, could maintain law and order at least as effectively as the *Orde Baru*, and return the economy to a growth path. The country is a vast archipelago with 17,500 islands (6,000 inhabited), more than 700 languages, and the fourth highest population among the world’s nations. Although religious tolerance is official government policy, recognized in the Constitution and supported by major Islamic organizations, new religious parties and fundamentalist groups have used the new phase of political openness to demand a special status for Islam as the state religion. Many practices and traditions of the *Orde Baru*, notably the presence of the military as an autonomous force in virtually every locality, are still present.

President Habibie apparently decided that an early, broad-based commitment to democracy was the best approach to deal with Indonesia’s challenges. The media were permitted a much freer hand, and nongovernmental organizations (NGOs) were allowed to form and to initiate a variety of social service and political activities. A political party law passed nine months after he came to power resulted in the formation of 48 new parties that contested the first parliamentary elections. Habibie and his advisors apparently accepted the current view among democracy scholars that decentralization and autonomous local governance offer effective approaches for dealing with social diversity and economic inequity. In new democracies, the preceding sociopolitical order generally provides a *reverse template* for shaping system reform. Since 1998, the implicit slogan in Indonesia has been “erase the *Orde Baru*, substitute the opposite.” Much has been done to erase the “old” *Orde Baru*, free elections, free media, openings for civil society organizations, more transparent legislation and administration, new parties, and a truly impressive commitment to democratic decentralization.

The Regional Autonomy Law (22/1999) passed in May 1999 laid a firm foundation for autonomous, democratic local governance, captured in the phrase *Otonomi Daerah* (regional autonomy). It introduced competitive elections into provinces, cities, regencies, and *desas* across the country and made new leaders responsible for 26 governance functions. Elected councils were given significant legislative and oversight responsibilities, and were empowered to elect local executives. New governors, mayors, and *bupatis* were empowered to oversee large staffs responsible for delivering services in such key areas as education, health, agriculture, infrastructure, transportation, trade and industry, investment, and the environment.

Habibie’s successors, Abdurrahman Wahid and Megawati Sukarnoputri, had different political agendas and asserted their power in different ways, but essentially followed through on the initial commitment to democratic local governance. President Wahid, a liberal Muslim clergyman and leader to the nation’s largest Islamic association, aspired to lead his nation through a rapid, full transition to democracy. He embarked on several dramatic initiatives—abolition of the Ministry of Information, a visit to the rebellious province of Papua, a proposal to recognize Israel, a proposal to lift the ban on Marxist parties, a proposal to settle the Aceh conflict through a referendum, concerted efforts to bring the military under civilian control—that brought his removal by the parliament after two years. Among the most dramatic accomplishments of his brief term in power was oversight of the Big Bang that transferred 2.5 million

central government employees to provincial and regional governments at the beginning of 2001.<sup>2</sup> This inherently risky initiative could have had far more negative political repercussions than it did. Transfer of a much smaller cadre of personnel in the Philippines in the early 1990s brought heated rhetoric, protests, and extensive lobbying by 40,000 health workers, and ultimately resulted in their special administrative status and guaranteed higher salaries.

President Megawati, daughter of Indonesia's most powerful President prior to the *Orde Baru*, was a long time leader of the political opposition. She emphasized strengthening the party she inherited from her father, and was more comfortable working with, rather than against, the military. But she continued efforts to enhance *otonomi daerah*. On one hand, Laws 32/2004 and 33/2004, passed during her term, placed more explicit central government controls over personnel administration and law making in regional governments. On the other, regional government autonomy and accountability were significantly enhanced by introducing direct election of local executives.<sup>3</sup>

President Susilo Bambang Yudhoyono was elected in 2004. Although a product of the military and senior officer under the *Orde Baru*, he has continued to nurture Indonesian democracy while in office, including support for decentralization. An initial round of local chief executive elections has taken place under his administration, and central ministries have promulgated numerous implementing regulations in support of Laws 32/2004 and 33/2004. An election in 2009 may bring new national leadership, but it is reasonable to assume that presidential support for democratic decentralization is part of a steady trend that will continue.

### 1.3 INITIAL RESPONSES OF NEWLY EMPOWERED REGIONAL GOVERNMENTS

The newly powerful subnational units that were mandated under Law 22/1999 are a heterogeneous grouping, varying greatly in natural and human resources, infrastructure, access to the outside world, and population size. Provinces vary in population from 800,000 in West Papua to 35.7 million in West Java. The regencies are similarly varied. Nunukan in East Kalimantan, adjacent to Sabah State in Malaysia, has 70,000 residents, while Bandung Regency, next to Bandung City in West Java, has a population of 3,000,000.

Despite the challenges of an abrupt transition, some local governments responded almost immediately to new opportunities to pass laws and establish policies. Within the first year the *bupati* of Bandung Regency in West Java began to hold innovative weekly public dialogues with constituents. The city council in Pontianak, West Kalimantan passed a law aimed at improving the quality of public services, and established a benchmark for how many hours service workers should devote each day to direct service delivery. In Sidoarjo Regency, East Java, the new government reduced the number of bureaus from 25 to 21, eliminated 15 sub-bureaus, and concentrated all licensing functions in a single bureau. By the third year, local governments were making concerted efforts to improve public services. This was especially apparent in regards to health and education.

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<sup>2</sup> Sidoarjo, a semi-urban regency in East Java, adjacent to Surabaya City, was the recipient of 10,934 new staff members when the new law formally took effect at the beginning of 2001. This brought total staffing to 13,663 to serve a population of 1.55 million; *Indonesian Rapid Decentralization Appraisal*, Round 1, 2002.

<sup>3</sup> This provision may have been regarded by some strategists in the President's party as an opportunity to project party power more directly into communities across the country. However, the long-term result is likely to be a re-alignment of power within all parties, with local executives exerting greater control over strategy and service as a recognized route to power within the national party structure.

## 1.4 THE CURRENT STATE OF AFFAIRS

However, elite concerns for stability, and a corresponding desire for peace and safety among ordinary citizens, seem to be responsible for the persistence of certain *Orde Baru* institutions and practices up to 2008. For example, the territorial forces, centralized police, and off-budget military spending continue largely unchanged. Other holdovers appear in new guises, but apparently persist in large part because they promise a degree of stability within Indonesia's complex and unsettling democratic decentralization process. These include continuing emphasis on the unitary state, and the attraction of *Orde Baru*-style *sosialisasi* for some decision makers.

The concept of the “unitary state” was cited often during interviews conducted by the team, sometimes to explain top down but sensible government policies, sometimes to justify unproductive central government interference and bureaucratic resistance to change.<sup>4</sup> Many informants in central government ministries still assume a need for *sosialisasi* sessions at which lower level officials are given their marching orders regarding enforcement of new regulations, rather than allowed to identify potential problems and suggest alternative solutions.

Golkar, the former dominant single party, has recreated itself as a successful mass party, able to win contested elections. It has succeeded in large part due to its ability to re-brand candidates and reorient organizational strategies from the *Orde Baru*, and because tens of millions of Indonesians are comfortable with the continuity it provides. Golkar's symbolism stresses unity, continuity, and stability.

One overarching issue is that there is no grand plan and no single institutional arbiter on what steps should be taken to advance democratic decentralization. Three oversight ministries—Ministry of Home Affairs (MoHA), Ministry of Finance (MoF), and Bappenas—have overlapping responsibilities, do not always agree on which steps are needed, and have different priorities. The MoF makes decisions about formulae and procedures for transferring funds. Bappenas seeks to foster “citizen participation” and “local initiative” through centralized planning processes. Authorities of local governments remain unclear as central agencies introduce new procedures, require an expanding number of reports and clearances, and compete in delivering services.

Service delivery ministries—e.g., the Ministry of National Education, Ministry of Religious Affairs, Ministry of Health, and Ministry of Environment—have substantially ignored the implications of a democratic, decentralized Indonesia. They have created confusion and inefficiencies in at least two ways, by continuing service delivery programs that compete directly with those officially transferred to subnational governments under Law 22/1999 and by imposing unfunded mandates.

Regional government efficiency is further undermined by the vagueness and inconsistency of many central government regulations, and by looming threats that individual officials may be accused of improprieties. Well intentioned politicians and administrators can be hemmed in or tripped up by conflicting or overlapping regulations. In the worst cases, efforts to get work done in the face of ambiguity or conflicting rules may lead to allegations of maladministration or even corruption.

Since a large number of local government officials, both politicians and administrators, currently face corruption allegations, many are reluctant to take new initiatives, or even pursue routine tasks that involve significant expenditures. Improving the clarity and consistency of regulations regarding graft and corruption can significantly shift performance incentives, make honest and innovative officials less timid, and thus improve the capacity of subnational governments. But the contrary danger is that additional “clarification” will further muddy the administrative waters.

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<sup>4</sup> A “unitary state” in which five provinces—Aceh, Papua, West Papua, Yogyakarta, and Metro Jakarta—have special political status is a bit difficult for foreign observers to comprehend.



## 1.5 SIGNIFICANT CONTEMPORARY ISSUES RELATED TO DEMOCRATIC DECENTRALIZATION IN INDONESIA

In emerging democracies, concerns for the *geographic integrity* of the state, and perceived threats of class-, race-, ethnic-, or religion-based *conflict* often shape decentralization policies. As policymakers consider the feasibility of democratic decentralization, crucial questions arise: Are subnational governments likely to *threaten* or *enhance* geographic integrity? Are they more likely to *mitigate* or *exacerbate* ethnic conflict? Is it appropriate to re-align subnational government units along ethnic or religious lines? These were clearly key concerns for Indonesian decision makers as they drafted and passed the first decentralization/local governance law (22/1999) and remained important as the second major law (32/2004) was drafted and enacted a few years later.

In Indonesia, demands of disenchanted citizens and leaders have been aggregated at the level of the province. As early as the 1950s, the new governments faced insurgencies in West Java and Maluku. The province of East Timor resisted the Indonesian occupation when it began in the mid-1970s, and successfully concluded its independence campaign during a 1999 UN-sponsored referendum. Campaigns for independence have been undertaken more or less seriously in at least four existing provinces, an active insurgency in Aceh, a noisy publicity operation in Riau, and persistent but uncoordinated demands for *merdeka* in Papua. In each case, separatist groups have pursued their campaigns at the provincial level, not in relationship to some larger or smaller unit.

It is thus not surprising that the decentralization/local governance laws of 1999 and 2004 downplayed the functions and authority of the *propinsi* and ensured governors remain firmly embedded in the national structure, while building a relatively strong role for the next level down, the cities and rural districts. *Kota* and *kabupaten* functions and authorities are spelled out in considerable detail, and the responsibility of the *walikota* and *bupati* for local citizens' welfare is made clear. In contrast, *propinsi* functions and authorities remain unclear, and the governor is given an ambiguous dual role as a directly elected politician and central government representative to whom various tasks can be delegated.

In 1998-99, when the first decentralization law was debated and passed, it was not surprising that decision makers perceived the unity of the state as under threat. As noted above, independence movements were under way in Aceh, Papua, Riau, and East Timor. Then in 2001-02, other potentially destabilizing events occurred. Inter-ethnic and inter-religious conflicts broke out in many communities, and groups of Muslim "freedom fighters" were dispatched to trouble spots in the Malukus, Papua, Sulawesi, and Kalimantan. In Java and elsewhere, many Christian churches were burned. These divisive activities were supported and funded by shadowy social forces, suspected by many observers to be members and allies of the Soeharto family. In any case, continuing violence and threats of violence underlined the need for stability, and this continued as a dominant theme in planning and implementing the decentralization process.

Concerns about violence and disintegration have continued, and the assessment team believes that maintaining stability remains a dominant objective of Indonesian decentralization in 2008. However, it appears that the volatility of potential flashpoints has lessened. Aceh has entered a new phase as a semi-federal entity within the unitary state; separatists in Riau are quiet; East Timor has departed from the unitary state, and is no longer perceived as an internal threat. Papuans indulge in the rhetoric of *merdeka*, but are too fractured by language and culture to build a significant, lasting freedom force. It is thus possible that stability concerns will become less pronounced over the next few years.

While feudal systems were historically important in several parts of Indonesia, three-and-a-half centuries of Dutch colonial administration and commercial exploitation, and 50 years of independence before the democratic transition have provided sufficient time to develop subnational governments free from dominance by quasi-feudal elites across most of Indonesia. Jogjakarta Province, with its special status as a sultanate, with a traditional rather than elected leader, obviously constitutes an exception, although the current sultan chooses to play a relatively transparent role as a humanitarian, service-oriented leader. And

Gorontalo Province, which elected a scion of the traditional ruling line as governor, may also be taking on the trappings of a modern sultanate. However, in most areas, standard democratic institutions such as competitive elections, political parties, an activist civil society, and free media have become accepted as the sociopolitical norm.

Scores of new subnational governments have been established as regions have been sub-divided in a process some Indonesians refer to as “flowering.” By late 2008, Indonesia had 33 provinces and 440 regencies and cities. Few new autonomous regions have performed particularly well, and their need to hire duplicate staff to perform duplicate functions from duplicate offices and service facilities imposes an additional financial burden on the national budget. Moreover, sub-division and the creation of new borders has triggered unprofitable disputes and political conflicts, e.g., in Riau Province, between Pekanbaru City and several adjacent regencies; and in South Sumatra between Palembang City and adjacent regencies; and Prabumulih City with nearby regencies. Many thoughtful Indonesians worry about this trend, but no informant interviewed by the team thinks “flowering” is likely to end soon. Nor do they believe the government is willing to face the political consequences of postponing or canceling planned acts of sub-division.

Law 32/2004 has broadened gender participation in local politics by clearly stating that women have the right to be elected as regional heads and deputy heads and thus, apparently, encouraging parties to nominate female candidates. In a rapid response to this new emphasis, during 2005-06 women contested for positions as executive or deputy in 53 provinces, cities, and regencies spread across the country. One woman was elected as governor in Banten, and another as deputy governor in Central Java. In six regencies—Kebumen, Central Java; Banyuwangi and Tuban, East Java; North Minahasa and Bolaang Mongondouw, North Sulawesi; and Nunukan, East Kalimantan—women were elected as *bupati*. In 11 other cities and regencies, women were elected as deputy mayors or regents.

A system of national government fiscal allocations to provinces and districts under the New Order provided subsidies, tightly-controlled central grants, and redistributive funds. The resulting loss of local initiative and increasing dependency on central funding has substantially carried over into the current system for local government financing. Law 33/2004 focuses mainly on fund flows from central government to provinces, cities, and regencies, and on expenditures at the local level. Centrally allocated government funds provide as much as 70% of the budget of most regional governments, rendering them excessively dependent on external funding. Because they rely so heavily on this source, they give little thought to the need for sound economic governance and sustainable economic development that are required if they are to gain significant income and support from the local business community.

## 1.6 THE NATIONAL DECENTRALIZATION PROGRAM

Despite their apprehensions about national unity and stability, Indonesian policymakers have made democracy building a dominant objective of decentralization. Individual decision makers may disagree with a particular policy at a specific point in time, but the overall direction has been consistent. Furthermore, it can be argued that decentralization has been selected as the primary vehicle of democratization in Indonesia. A strong local governance law was passed within 18 months of the democratic transition in May 1998, and significant functions and authorities, along with 2.5 million government personnel, were transferred to provinces and local governments when the law went into full effect a year later.<sup>5</sup> *Otonomi daerah* (“local autonomy”) appears to be the new political catchphrase, filling most of the void left by the abrupt disappearance of the *Orde Baru* from official rhetoric in 1998.

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<sup>5</sup> In contrast, in the Philippines the gap between re-establishment of competitive politics and the advent of newly empowered local governments was five-and-a-half years. Sri Lanka has moved gradually, over 60 years, to build local governments that

At the beginning of 2001, the Indonesian government began to enact provisions of the Local Government Law (22/1999) passed in late 1999. Regional autonomy aimed to fundamentally change the balance between central and the local government. This was a logical consequence of efforts to eliminate authoritarianism, excessive centralization, cronyism, and corruption under the *Orde Baru*. Local parliaments (*Dewan Perwakilan Rakyat Daerah* [DPRDs]) became an important political arena for new political parties. The role of civil society also became more important *vis-à-vis* both central and local government.

Law 22/1999 was explicit about authorities of some governance structures, and murky about others. Cities (*kota*) and regencies (*kabupaten*) were assigned significant functions and substantial authority to fulfill them. Local legislatures (DPRDs) were assigned three major functions: legislation, budget review and approval, and supervision of administrative units. However, seven years later, these broad authorities have not yet been the subject of clarifying regulations. The governor of the province (*propinsi*) continued to act as representative of the central government, but did not have direct political power over regents or mayors. Article 4 of Law 22/1999 made that clear. Yet, confusingly, as the central government's representative, Regulation 20/2001 made governors responsible to supervise and facilitate certain facets of district and city governance, making them responsible for functions that extend across district boundaries, and for functions originally assigned to districts, but not being performed adequately by some districts under their jurisdiction.

However, since Laws 32/2004 and 33/2004 were passed, the government has followed through with extensive efforts to facilitate implementation, including 12 government regulations and Presidential decrees in support of 32/2004, and five regulations and decrees in support of Law 33/2004. A major task still ahead is harmonizing innumerable sector-specific laws and regulations with 32/2004 and 33/2004.

Decentralization has brought fundamental change in the organization and structure of Indonesian government. Central, provincial, and district governments stand as relatively separate entities, making both vertical and horizontal coordination more difficult. The major features of Law 32/2004, clarified further under Regulation 38/2007, can be summarized as follows:

- The authority of district governments covers all sectors with the exception of seven: foreign policy, defense, security, the judiciary, monetary and fiscal policy, religion, and "others" currently reserved for the central government. These include national development planning, fiscal distribution, state administration, national economic institutions, human resources, natural resource exploration, strategic technology, conservation, and national standardization.
- The authority of cities and regencies extends to 36 sectors or functions. Their main responsibilities in service delivery include public works, health, culture and education, agriculture, transportation, industry and trade, social welfare, investment, environment, land management, cooperatives and small and medium enterprises, and workforce development.
- The transfer of authority from national to district government was to be accompanied by transfer of financial resources, facilities and infrastructure, and human resources appropriate to the sectors transferred.

A brief examination of these points exposes some possible discrepancies in relationship to the *spirit* of Indonesia's decentralization process:

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are weaker and less democratic than those established within a decade in Indonesia; and village governance remains under the direct control of central government appointees. A firm commitment to democratic local governance on the scale already achieved in Indonesia is still in the future for Bangladesh and Thailand.

- Subnational governments have been authorized to provide basic education, have had more than 2.5 million former central government employees transferred to their personnel rolls, and are responsible for workforce development. Perhaps it makes sense to envision the human resources sector as an area of *dual responsibility*, undertaken collaboratively by central and subnational governments.
- Furthermore, it will be useful for central government policymakers to consult extensively with local politicians, subnational government employees, and ordinary citizens to explore the costs and benefits of dividing the Indonesian civil service into two parts, one for central government employees and one for subnational governments.
- Central ministries and departments have not consistently followed through on their responsibility to transfer adequate funding along with new responsibilities. Although the terminology is little used in Indonesian, local government officials are beginning to complain about unfunded mandates.

Overall, subnational governments are becoming more accountable and democratic. While progress is somewhat uneven, it is nevertheless evident in the following areas:

***Parties and direct elections:*** Party and election laws and regulations passed since 1998 have opened ample space for political parties at national and subnational levels.<sup>6</sup> Indonesia has moved from a single pseudo party contesting pseudo elections to dozens of parties contesting elections vigorously at both the national level and in more than 400 subnational governments. It can be argued that this has not always been productive for local democratization. Low entry barriers (in terms of signatures required and fees paid) and low performance benchmarks (in terms of minimum standards for votes received and seats won) have resulted in a bewildering array of parties nationally and in many localities. Furthermore, under a proportional representation system, national party officials and a few local political bosses appear to have *disproportionate influence* over which individuals are selected for local slates. But there is some evidence that recent changes in local government elections are shifting the equation, making elected officials more directly accountable to citizens.

Candidates for executive positions—governors, mayors, *bupatis*, and their deputies—have been directly elected by citizens since the round of local elections beginning in 2005. Previously, they were selected by newly seated local legislatures, a system that maximized the power of party officials and limited executive accountability to citizens. Roughly equivalent changes in implementing legislative elections will begin in 2009, and also seem to be aimed at strengthening accountability to citizens. Voters will have an either/or choice, able to select a party slate or an individual candidate. A greater emphasis on individual candidacies can be expected to encourage at least some candidates to develop their own platforms, give greater emphasis to local issues, and seek direct exposure to voters, all of which are useful steps toward greater local democracy.<sup>7</sup>

***Marred elections, but expanding opportunities to demand accountability:*** There are allegations, probably well founded, of *vote buying*, sometimes at prices as low as Rp.50,000 (about \$5) per household, and of *candidacies for sale* as those interested in running for governor, mayor, or *bupati* find it necessary to purchase the support of a party. However, elections are one day events, followed by years of day-to-

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<sup>6</sup> There is no evidence that policymakers seriously considered making elections at the *kota* or *kabupaten* level partyless, although this is a common practice, and works well, in small and medium-sized cities in the U.S. However, elections at the *desa* (village) level are partyless.

<sup>7</sup> Campaign posters currently on display in Semarang indicate that candidates are already responding to an implied invitation to implement more individual, issue-oriented campaigns.

day governance. Voters who sell their votes at five year intervals nevertheless have numerous opportunities during the interim to be heard and to influence local governance. Once elected, candidates who buy their way into office must face citizens and their demands on a daily basis.

Mechanisms that are in place to give citizens greater access to local governance include civil society groups working on behalf of citizens to shape local budgets and legislative agendas; environmental impact hearings enabling those who may be affected opportunities to attend and speak; “regulatory impact assessments” that consult with citizens before new regulations are finalized; activist parent/teacher associations; clinic advisory committees;” etc. While none of these activities are universal in Indonesian local governments, and most occur in relatively few places, assessment team members are favorably impressed by the energy and creativity being demonstrated by civil society organizations (CSOs), and by the openness of some subnational governments to these organizations and their clients and members.

***Participatory, but bureaucratic, planning:*** *Musrenbang* is a bottom-to-top planning system introduced by Bappenas, the national planning agency. Although it is a well-intentioned effort to facilitate greater citizen participation in official planning, the system is the product of a national planning bureaucracy, and manifests many of the shortcomings such systems are prone to. A brief examination of the *musrenbang* flowchart, and comparison with participatory planning in other countries, suggests the system is overly concerned with producing documents to pass up the system, excessively focused on consolidating the varied concerns of different communities, too concerned with selecting short-term projects from pre-determined budgets, and not concerned enough with building authentic local visions and producing action plans for governance levels as low as the *desa*. Since the system is not closely tied to the formal budgeting process, it does not provide ordinary citizens an opportunity to articulate their concerns and play at least a minor role in setting local priorities. Assessment team members believe that with careful local adjustments the system can be used to build greater local participation, accountability, and autonomy.

***Democratic local governance and economic development:*** Democratic processes—free elections, transparent budgeting, public hearings, participatory planning—are themselves valued goods that can strengthen nations and improve the lives of ordinary citizens. But one obvious attraction of mature democracies in Europe, North America, and the Antipodes is their prosperity. Eventually, leaders and citizens of new democracies expect their systems to deliver prosperity, and most expect subnational governments to play a significant role in hastening and sustaining economic development. However, in late 2008, economic development appears to be a subsidiary objective for national decision makers who shape decentralization policy, and a relatively unimportant focus for politics and governance in most Indonesian subnational governments.

Subnational governments would benefit from a wide range of practical information on undertaking regulatory responsibilities and providing specific services—e.g., garbage collection, street lighting, managing traffic flows and parking—that can help or hinder commercial and industrial firms. They are mandated to issue building permits and licenses, but not guided on how to issue those documents efficiently and transparently. They are allowed to levy certain taxes and licenses, but not warned that excessive levies can shrink business profits and discourage investment. They are given no sense of how taxes and fees can be gradually *ratcheted upward* as local governments use each increment of additional locally generated revenues to deliver services that matter. Overall, they receive little guidance on how to make policies, pass laws, and provide services that create sound economic governance and promote long term economic growth.

## 2.0 THE DECENTRALIZATION DEFICITS

This section examines the four key characteristics of decentralized democratic local government in order to ascertain the nature of Indonesia's ongoing decentralization deficits. These fundamental characteristics are *authority*, *autonomy*, *accountability*, and *capacity*. The following examination of these characteristics will tell us how well the system is working, show where major deficits lie, and support clear thinking about possible assistance to take the system to the next level.

### 2.1 CLARIFYING AND ESTABLISHING APPROPRIATE LEVELS AND FORMS OF AUTHORITY

Subnational governments in Indonesia—provinces (*propinsi*), cities (*kota*), districts (*kabupaten*), and villages (*desa*)—need appropriate legal and political **authority** over their assigned and permitted functions. Without this, their effectiveness in fostering stability, democracy, and economic development will be limited. Likewise, deconcentrated units of the central government, e.g., outposts of service ministries such as the Ministry of National Education and Ministry of Health, need sufficient authority to work with subnational governments in a collaborative manner consistent with the spirit and substance of democratic decentralization. Authority is *granted* under law, and may be *reinforced* with appropriate regulations and procedures, or *undercut* with unsuitable regulations and procedures.

#### 2.1.1 The First Round of Laws and Regulations

A major facet of decentralization, one reason the process was referred to as the Big Bang, was the transfer of 2.54 million civil servants from central government personnel rolls to the provinces, cities, and regencies.<sup>8</sup> These workers enabled provinces, cities, and regencies to deliver services they were now authorized to undertake. The majority were now employed in the cities and regencies. Of the total of 2,537,687 personnel transferred, 464,447 were attached to provincial administration and the remainder to cities and regencies. Most transferred civil servants were teachers (1.1 million in primary schools) and health workers (300,000). Provinces absorbed, on average, about 15,000 new workers. Cities and regencies generally received 6,000 to 7,000 new workers.

Under Laws 22/1999 and 25/1999, functions of central government were to be shifted away from direct service delivery toward support and oversight functions such as establishing norms and standards, monitoring, evaluation, and supervision. Although spelled out in law, and logically implied by the decentralization process itself, there is little evidence that ministries and departments have responded in any significant degree to this mandate to reinvent their missions, organization charts, budgets, and personnel practices.

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<sup>8</sup> Rohdewohld, 2003, p. 260.

The first three years of subnational governance under Laws 22/1999 and 25/1999 brought innumerable actions and some impressive innovations as new governments exercised new authorities. There were undoubtedly abuses on one hand, creative problem solving on the other, and a large number of routine actions needed to perform new functions. Some informants, particularly in Jakarta, and often high in government ministries, describe this as a period of uncontrolled, irresponsible behavior. They typically cite actions in two areas, the passage of new local ordinances and personnel actions involving hiring, promoting, or reassigning civil servants. This sense that subnational governments had somehow gotten out of control was one factor shaping the second round of law making that began in 2004.

## 2.1.2 The Second Round of Laws and Regulations

Laws 22/1999 and 25/1999 were replaced by Laws 32/2004 (on local governance) and 33/2004 (on fiscal aspects of decentralization). The new laws were intended to provide clearer, more detailed guidance for implementing regional autonomy. Both underline Indonesia's continuing strong commitment to regional autonomy as the most efficient means to improve service delivery, increase people's welfare, foster creativity, and ensure political, economic, and social stability.

A significant breakthrough in Law 32/2004 was the introduction of direct elections for local executives. Since June 2005, more than 400 governors, regents, and mayors, and their deputies, have been elected. This can be seen as a major step forward in enhancing local authority and consolidating Indonesian democracy. Because these politicians are more directly beholden to the citizens who elect them and, once elected, less obligated to the parties that nominate them, they are in a better position to pursue aggressively the functions they have been authorized to perform.

Numerous articles of Law 32/2004 also reflect the concerns of many Jakarta policymakers that subnational governments got out ahead of the political pace of decentralization in the early years. Various provisions remind local governments that they are part of a hierarchical system and impose clearer limits on their authority, essentially reining them in: Article 2, paragraph four requires regional governments to "have relations" with central government and other regional governments. Paragraph five clarifies that "relations" mentioned in paragraph four shall include authority, finance, public service, and exploitation of natural resources. Article 11 states two principles for sharing authority, management is to be divided based on criteria of externality, accountability, and efficiency with due attention to "harmonious relations between government strata;" and provincial, regency, and city governments are all related, interdependent, and synergistic as parts of one government system. Article 218, paragraph one specifies central government's role in "supervision" of regional governments, including a) supervision of implementation of government affairs; and b) supervision on regional ordinances and regulations issued by the local executive. Article 222 clarifies that 1) fostering and supervision of management of regional governments at the national level will be coordinated by the Ministry of Home Affairs (MoHA); 2) for the regency or city by the governor; and 3) for village or neighborhood governments by the regent or mayor.

The advent of decentralization at the beginning of 2001 clearly implied that central ministries should realign their activities and responsibilities according to the spirit and substance of the new laws. To a degree, some complied; The Ministry of Public Works decentralized the implementation of all engineering functions to the regions, leaving only a policymaking function in Jakarta. The Ministry of National Education was in an advanced stage of planning to dispatch the bulk of its staff to the regions and to enhance the independence of universities.<sup>9</sup>

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<sup>9</sup> *Kompas*, 15 January 2001.

In the interest of balance, Law 32/2004 briefly clarifies appropriate new roles for central ministries and departments in the process of decentralization; Article 112, paragraph one states that the central government shall “facilitate” the management of regional autonomy. Article 217 clarifies the facilitation role, sketching new responsibilities for central government agencies consistent with democratic decentralization; administrative coordination between government strata; provision of guides and standards; provision of guidance, supervision, and consultation; education and training; and planning, research, development, monitoring, and evaluation. However, there are no specific sanctions mentioned for central government units that fail to adopt a facilitating role, nor are there follow-up regulations to clarify how such tasks as “provision of guidance, supervision, and consultation” or “education and training” can be performed effectively in the context of democratic decentralization. Ministry personnel have ignored potentially valuable roles as coaches, consultants, action researchers, evaluators, and sharers of good practice information.

### 2.1.3 Remaining Challenges in Establishing Subnational Government Authority

Many observers of Indonesian decentralization have criticized a legal framework that, despite passage of numerous laws and promulgation of myriad supporting regulations, still leaves many ambiguities. The position of the *propinsi* in relation to *kabupaten* and *kota* has become, if anything, more ambiguous. Law 32/2004 affirms a role for the province in coordinating activities of districts, but at the same time cities and districts are assured a direct reciprocal relationship with the central government. Provincial and district governments are assigned 26 equivalent functions, but there are no clearly defined rules on how the authorities are to be shared and carried out. This sometimes leads to provincial and district activities that are overlapping and competitive and sometimes results in essential tasks or services being left undone. Laws clearly detailing the authorities of the *propinsi* at the top of subnational governance, and the *desa* at the bottom, are under discussion, but not yet close to passage.

Senior officials in the Ministry of Home Affairs, and their advisors from academe and research institutes, see the solution to current ambiguities and confusion in additional rounds of legal drafting. Other participants in the decentralization process argue that too frequent revisions have already added to confusion and inefficiencies, and propose an interregnum in passing laws and releasing regulations. They argue that the solution lies in harmonizing, and perhaps simplifying, the body of laws, regulations, and procedures that currently exist. The decentralization process in Indonesia is in marked contrast to the one in the Philippines, where a comprehensive, 280-page Local Government Code was passed in 1991, and has not been amended since. While the concept of a pause in drafting laws and regulations, for reflection and harmonization, has some attraction, members of the assessment team saw no indications that it will actually happen.

Despite legal provisions authorizing cities and regencies to establish their own personnel levels and alignments, central ministries for administration and personnel management have significantly limited the control they actually exert over personnel and service delivery mechanisms. Systems for recruitment, career paths, salaries, and performance measurement are regulated by the central government. Regional governments cannot fire or hire staff; this authority lies with a civil service board controlled by the Ministry for Administrative Reform and State Employee Agency. As a consequence, regional governments are limited in their ability to stimulate and reward civil servants who work productively, or punish those who do not, or to innovate by adjusting personnel and personnel management to local demand.

Achieving full authority for subnational governments is also hampered by tradition. Ten years into the democratic transition, the majority of adult citizens are still those who came of age under the opaque, centralized, authoritarian governance structures of the *Orde Baru*. Surveys consistently show that citizens



have low expectations of government services; a majority of citizens rate health services satisfactory even though infant and child mortality rates are two or three times higher than in poorer countries in Asia. Most citizens still tolerate opaqueness and seldom dare to challenge the actions or judgment of hierarchical superiors and few citizens and officials are willing to undertake any action not explicitly sanctioned by “the system.”

#### 2.1.4 Deficits and Achievable Goals for Local Authority

Overall, subnational governments have been given adequate political scope to undertake their responsibilities. But transforming associated administrative and fiscal systems in a nation with massive population, enormous cultural complexity, and great geographic challenges is remarkably complex, a task to be completed over decades, not a few years. Legal and procedural adjustments are needed, and will continue to be made. Experts are currently preparing a law to clarify the role of Indonesian provinces vis-à-vis other subnational governments and central ministries. But provinces, cities, *kabupaten*, and *desa* will continue to live with ambiguity in their daily operations for the foreseeable future. One obvious reason is that personnel in central government agencies are, at best, lukewarm to transferring programs and resources to subnational governments, and unenthusiastic about learning new roles that support and supervise subnational governments. Local politicians may be able to weigh in, eventually, and articulate demands for a stronger service orientation from central ministries through their local governance associations. But progress will come one slow step at a time. Donor projects may be able to identify specific procedural problems, and facilitate dialogue between subnational governments and central ministries on possible solutions, but new problems will continue to crop up.

Building local authority will continue to be a two-steps-forward, one-step-back process, with excesses and shortfalls on both sides. On the one hand, central officials are reluctant to give up traditional roles, some of which may offer opportunities for graft. On the other, local governments commit trespasses both of commission and omission. For example, many cities and regencies have passed unconstitutional ordinances that enforce Islamic behavior standards, while other local governments are ignoring or downplaying their responsibility to provide effective family planning services.

In any case, despite setbacks, annoyances, and barriers, “governance happens” across Indonesia. Provinces, cities, regencies, and villages have substantial budgets, sufficient administrative personnel, and significant functions. Devoting additional large investments of time and money on perfecting authority structures that are, perhaps, best improved through incremental changes over time, does not seem justified. Subnational governments, and the donors that assist them, will be better served by programs that help them to build effectively on the substantial authorities they *do* have. Field-based activities can help them win *major victories* in areas where authorities are clearly established, and when opportunities arise, they can be supported toward *small victories* in expanding those authorities that remain murky.

## 2.2 ACHIEVING APPROPRIATE LEVELS AND FORMS OF AUTONOMY

**Autonomy** is conferred on subnational governments and deconcentrated agencies when higher levels allow sufficient latitude for local actors to perform their assigned roles. Specifically, autonomy is conferred on subnational governments when they are allowed significant control over budgets, administrative personnel, and revenue generation. On the other hand, autonomy is undercut when higher government levels decline to alter their behavior by adopting new roles in support of democratic decentralization, and regulations and procedures imposed from above undercut the substance or spirit of authorizing laws. Ultimately though, autonomy is earned, as subnational governments gain the trust and support of local citizens through effective services and programs, entice those citizens into becoming

willing taxpayers, and significantly increase locally generated revenues to be used in an autonomous, responsive manner.

## 2.2.1 The Central Government's Role in Fostering, or Undercutting, Subnational Autonomy

There were numerous doubters about the advisability of the Big Bang approach to decentralization, including media commentators and civil society leaders. National-level environmental NGOs raised concerns about the decentralization of power to 336 cities and regencies<sup>10</sup> before local capacities, including those of local CSOs, had been strengthened.<sup>11</sup> Many warned against such a hasty transition.

In any case, the process moved ahead. As predicted by many observers, the first year of decentralization (2001) was marked by confusion. Local governments had to reform internal structures, train civil servants, and meet budgetary requirements without a detailed plan. Many provinces were unable to meet their expenses and decided to increase revenues through hastily enacted taxes and levies. Incomplete devolution of powers and lack of fiscal transparency allowed space for corruption. Many observers accused local bureaucrats of siphoning money from reform projects. Local management capacities were variable, politicians were inexperienced, and there were fears that economies of scale would be lost.<sup>12</sup> Furthermore, Law 25/1999 on regional finance enriched a few provinces with significant natural resources, while depriving resource-poor provinces of needed funds.

According to many observers, particularly senior central government bureaucrats and other Jakarta residents, many local governments abused their new authorities, notably in personnel management and local legislation. The observers mention a rash of apparently inappropriate personnel actions, particularly in hiring, promoting, or displacing senior administrators, and passage of a large number of apparently improper ordinances. The media have also cited the numbers of new ordinances passed—about 13,520 laws by about 450 newly-empowered local legislatures up to 2008—implying this provides prima facie evidence of irresponsibility. In fact, the numbers suggest the passage of about four to six ordinances per year in each DPRD, not an inordinate number. Without clear evidence of irresponsibility or harmful effects, it is just as reasonable to assume that many of the ordinances are sensible efforts to solve local problems under lawful authorities. However, there is some evidence of indiscriminate lawmaking, and we can assume that this large collection includes a mixture of appropriate, inappropriate, and irrelevant ordinances.

About three dozen subnational governments displayed their religious zeal by passing ordinances imposing specific Islamic behavioral standards on local residents. Virtually all of the laws are inconsistent with provisions of Indonesia's 1945 Constitution, and are thus illegal. Furthermore, Law 32/2004 reserves religion as a national government matter. However, to this point, perhaps for reasons of political caution, the national government has not acted to overturn the ordinances. This is a case where local autonomy should face clear limits, and illegal ordinances should be overturned.

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<sup>10</sup> The number of local governments has increased from 298 in 2000 to 336 in 2001, 348 in 2002, more than 370 in 2003, and 477 late in 2008.

<sup>11</sup> Interview of Dr. R. Sit Zuhro with local NGOs in *Kabupaten* Malang (Malang District), May 2001 and NGOs in South Sulawesi, July 2001.

<sup>12</sup> *Jakarta Post*, 9 May 2002.

Practices that routinely undermine the autonomy of subnational governments by interfering with essential management functions include:<sup>13</sup>

- Ad hoc transfers of local units of central government agencies, such as the General Election Commission, Ombudsman Commission, and Business Supervision and Competition Commission to regional governments. When personnel and responsibilities are transferred without arrangements for sustained funding, the institutions become *unfunded mandates*, with little chance of long-term effectiveness or survival.
- Retention of authority over key aspects of civil service recruitment and management by central government. This takes control of subnational governments' most important resource out of the hands of local executives and senior administrators, and may force a variety of *irrational personnel practices*—e.g., when positions that are essential and should be filled by full-time professionals are instead contracted out on a temporary basis.
- Continuation by central government service departments of their *role as implementers*, rather than accepting new roles in applied research, support, training, sharing of good practices, etc.

Highly centralized political parties are not an ideal match for a decentralizing Indonesia. Their hierarchical structures and the sanctioning power of national party officials can undermine the autonomy of subnational governments. Central executive boards (or a subset of their members), make final decisions about individual DPRD candidates, and about their position on the party list. Local party chapters make recommendations, but are routinely overruled from Jakarta. DPRD candidates can be expected to be more beholden to those officials than to the voters who elect them. Having gained office, most will be inclined to “look over their shoulder” to regional and national party offices for guidance, devoting limited effort to assessing the needs of communities they serve.

Law 43/1999 aimed to improve the quality of the civil service by mandating uniform personnel practices across all levels of governance. Rules regarding the hiring, promotion, performance appraisal, and remuneration are set at the national level and applied to all civil servants in both central and regional bureaucracies. Some national policymakers regard this approach as a kind of “national glue” for maintaining the unity and integrity of the Indonesian civil service. But provincial and local officials, both politicians and administrators, are more concerned about the law’s impact on the quality of local service delivery than on the uniformity of a personnel system, and tend to view the situation differently. For example, they note that despite the 2001 Big Bang officially transferring more than 2.5 million civil servants out of national government units, hiring, promotion, and transfer of “local” employees has become a centralized, bureaucratic process. District and provincial governments must submit annual wish lists for new hire employees then stand by as proposals are pared or otherwise modified by the Ministry of Apparatus and technical ministries.

## 2.2.2 Actions by Subnational Governments that Foster or Undermine Local Autonomy

Local political leaders and senior administrators can gradually gain greater autonomy through responsible actions. Specifically, they can facilitate transparency and citizen participation, make concerted efforts to improve services, take a measured approach to managing personnel, and build effective partnerships with civil society.

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<sup>13</sup> Note that many actions that directly undercut authorities legally transferred to subnational governments also undercut their ability to assume significant autonomy. However, as noted in this section, autonomy is to a considerable extent *earned* through effective local governance.

As a result of local initiatives, often by CSOs, local politicians and civil servants across Indonesia often find themselves working collaboratively with citizens, or at least with CSO representatives of ordinary citizens. Whether they find it comfortable or not, they come face to face with the need for better services, greater transparency, and more efficient procedures. The rapid expansion of CSOs across the country following the arrival of democracy in 1998 was a significant factor in enabling citizens to participate in local governance. In the cities of Surabaya and Malang in East Java, and Makassar City and Luwu Regency in South Sulawesi, local organizations have lobbied for and sponsored dialogues with the local governments on local ordinances and development programs. Local media have also helped to disseminate information from local governments to citizens and have made citizens aware of their right to participate in governance.

In some places, public participation and dialogue have led to concerted efforts to improve services. With initial assistance from a USAID project (BIGG) local governments in East Java and South Sulawesi have simplified procedures for accessing public services. In Surabaya, Malang, Makassar and Luwu, reforms have resulted in simpler business application processes involving stops at fewer desks and offices, have rationalized work hours to ensure better coverage for citizen/customers, and have brought greater transparency. Simplification is especially apparent for licensing services, which are now conducted on a “one stop” basis in those localities. Another approach to improved service delivery involves greater reliance on the *kelurahan* (urban neighborhood) or *desa* (village) as a provider of public services.<sup>14</sup> E.g., small, village-level clinics are in operation throughout Central Java.

Information on public services, previously unavailable, has become much more accessible in many localities. There is clearer information about fees and work schedules for services, such as providing ID cards and business licenses, a significant step forward in customer convenience. Clearer information also limits opportunities for petty corruption.

### 2.2.3 Fiscal Issues and Local Autonomy

The ability of subnational governments to assert their *political* and *administrative autonomy* is hindered by high levels of *fiscal dependency*. Local government officials are in the position of teenagers who feel they are ready for adulthood, but depend on their parents to fund each major step toward that status. If locally-generated, locally-controlled funds can supply a substantial portion of the total annual budget, say a third or a half, local politicians, administrators, and citizens can begin to enjoy a significant degree of autonomy. By spending in a responsible, transparent manner, in accordance with local goals and development plans, local governance can enter into a virtuous cycle. Politicians and administrators will be seen as more competent, trustworthy, and responsive, and citizens will begin to regard taxes and fees as a reasonable investment in the future of their families and businesses.

To achieve this desired state, subnational governments need significant authorities to tax, levy fees for licenses and permits, charge user fees, invest and earn from real estate or other investments, lease out equipment, etc. However, revenue generation schemes should not be counter-productive. User fees for a wet market that are set too high will drive sellers to a competing market in the next town. Business permits that are too expensive will encourage investors to set up their industries or commercial enterprises elsewhere. Garbage collection fees that are too high will encourage households and businesses to opt out, and result in trash strewn river banks and vacant lots.

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<sup>14</sup> R. Siti Zuhro, Interviews with local people in Surabaya, Malang, Makassar, and Luwu between April and July 2001.

## 2.2.4 Deficits and Achievable Goals in Autonomy

Many regional governments have allowed CSOs substantial involvement in reviewing budgets, facilitating participatory events, and even in reviewing and drafting *perda* (local ordinances). There is far less space for participation in monitoring expenditures and policy implementation. Procurement, project management, and other budget disbursement activities (which may create opportunities for illicit benefits or for establishing patronage networks) may be nearly as opaque as they were under the *Orde Baru*.<sup>15</sup> Similarly, although ordinary people are often involved in initial “development planning deliberation forums” (*musrenbang*, sponsored by Bappenas from the national level and facilitated by Bappeda at the local level), they find their proposed programs are deleted in the final phases of program planning as work plans of local government administrative units are given priority.

While Law 33/2004 defines some revenue sources for subnational governments, there are few provisions that will enable them to gain sufficient own-account income to become fiscally autonomous. Nor is there any coherent plan to help them become substantially self-sufficient over the next decade or two. Major taxes are collected by central government, in some cases using the *desa*, *kabupaten*, or *kota* as collection agents. The Land and Building Tax, generally the major portion of regional government income, is a shared tax, assessed by the central government, collected at the village level, remitted to the Ministry of Finance, and then shared out to provinces, cities, *kabupaten*, and *desa* by formula. Under this system, there is little reason for taxpayers to hold local politicians and administrators accountable for expending funds well, little room for local governments to improve their efficiency in collecting the tax, and little basis for local governments to enhance their autonomy through innovative activities.

Perhaps the most promising alternative to this approach is turning full authority for assessing and collecting the Land and Building tax over to the *kota* and *kabupaten*. Senior officials at the Ministry of Finance and academic experts at the University of Indonesia are promoting this approach as part of the overall decentralization agenda. However, these proponents have laid out a twenty year plan for shifting full responsibility for assessment and collection over to local governments. The assessment team feels that a more time bound, aggressive approach is needed, perhaps built around transferring full authority for the Land and Building Tax to cities and regencies in a few provinces under a “certified experiment”, as discussed further in Section 5, below.

## 2.3 ESTABLISHING APPROPRIATE, EFFECTIVE INSTITUTIONS AND PROCEDURES FOR ACCOUNTABILITY

While many central government officials exaggerate the effectiveness of their role in eliciting accountability, a substantial degree of accountability to the center is required. Central government officials can elicit vertical accountability from subnational institutions through regulations, reporting requirements, adjustments to fund flows, and explicit punishments for failure to meet reporting requirements or corruption. Central audit agencies and inspectorates can ensure that services are adequate, funds are used effectively, procurements are transparent, and elections are legal. Democratic decentralization is also strengthened by horizontal accountability between legislators and executives, politicians and civil servants, and among deconcentrated personnel of different central departments. Finally the media and a wide range of civil society organizations can play a useful role in ensuring accountability in democratic decentralization. They can focus on eliciting *positive* actions from local governments—e.g., when women’s groups seek higher budgets or more effective programs for women and children. Or they can organize *negative* programs aimed at corruption or poor performance—e.g.,

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<sup>15</sup> This insight comes from Mr. Budi Setiyone, Lecturer in Political Science at Diponegoro University in the course of his Ph.D. dissertation research on corruption in local governance.

when a small business association monitors local government procurement and calls attention to improper procedures.

Under Law 22/1999, DPRD members were selected in competitive elections for the first time and governors, district heads, and their deputies were elected by DPRDs, no longer appointed by the central government. Democratic elections introduced new patterns of democratic accountability, a paradigm shift intended to make local governments both more independent of central government and more accountable to local citizens. One positive indicator of increased local accountability was the rapid expansion, from a base near zero, in the number of national NGOs monitoring local governments through “Local Government Watch,” “Parliament Watch,” “Corruption Watch,” and similar groups. The mass media also began to play an important role in exposing administrative and financial shortcomings at the local, as well as the national level.

Subsequent changes under Law 32/2004 have further strengthened the potential for local accountability. Notably, direct election of local executives has strengthened their direct accountability to citizens, and also established a more equal accountability relationship between the local executive and DPRD. A recent change in DPRD election practice prior to the 2009 elections will enable voters to select either an individual council candidate or a party slate. This has the potential of strengthening the accountability link between voters and individual DPRD members, and moderating the power of central party committees over local affairs.

The potential “accountability framework” for decentralized subnational governance in Indonesia is quite complex. For example, *civil society* is a mélange of institutions and interests, the media, service NGOs, community based organizations (CBOs), policy-oriented think tanks and foundations, universities, business organizations, and religious groups. *National ministries*, whether the generalist trio of the Ministry of Home Affairs (MoHA), Ministry of Finance (MoF), and Bappenas or the cluster of service ministries—e.g., Ministry of National Education, Ministry of Religious Affairs, Ministry of Health, and Ministry of Environment—seldom agree on accountability priorities, and are not monolithic within themselves.

We can envision accountability as a series of one-on-one relationships, as when *voters* exact a degree of accountability from *politicians* by extracting campaign promises during elections, and monitoring performance thereafter (or partially surrender their right to do so by accepting candidates’ bribes); or local *legislators* review and approve budgets from *executive* departments; or *NGOs* hold local government-managed *clinics* responsible for improved service standards after donating laboratory equipment and organizing citizen volunteers for outreach programs. Some relationships currently receive a strong emphasis in Indonesian laws and regulations, e.g., when the Ministry of Home Affairs imposes specific reporting requirements on local executive branches, and claims for itself the right to review and overturn local ordinances. Other potential accountability relationships, such as local executives building collaborative and accountable partnerships with deconcentrated public agencies, or with executives of adjacent local governments, remain weak or unexploited.

Efforts to expand accountability have not been an uninterrupted or universal success. Although there are many promising (and heartwarming) examples of local governments establishing and honoring new mechanisms for consultation, participation, and transparency, progress has been uneven. Many localities have been slow to facilitate public participation, or have introduced participation mechanisms with little actual substance. According to the Asia Foundation’s national sample survey of citizens undertaken after three years of democratic local governance, most respondents believed local governments had not yet significantly opened space for public participation. Scientists at the Indonesian Institute of Science (LIPI) conducted research on decentralization during 2003-2006 in 15 regencies and cities. None of the 15 had enacted local ordinances to institutionalize public participation in government affairs. While there were efforts to facilitate public inputs into governance, most were limited to public hearings with DPRD members and filing complaints in suggestion boxes.

### 2.3.1 Deficits and Achievable Goals in Accountability

As indicated above, accountability is achieved through a variety of political, social, and administrative mechanisms that enable participants in a democratic system to have knowledge of and influence over other participants in a democratic system. As in all democracies, accountability must begin with democratic elections that make political leaders accountable to citizens, and through the rule of law that makes citizens accountable to the governance unit. Accountability mechanisms can be vertical—e.g., when citizens assess, then accept or reject political candidates based on their proposed programs—or horizontal—e.g., when a local women’s group enters into a review of a local government’s budget to lobby for better programs for women and children.

Indonesian local government officials chafe at vertical accountability owed to central ministries and departments in the form of reports submitted, clearances requested, or sanctions received. Both local politicians and administrators argue, often correctly, that regulations are ambiguous, inconsistent, overlapping, or unfair. But a need for appropriate forms of vertical accountability remains. Central government audits need to become more honest, frequent, and effective in detecting mismanagement and fraud. Independent inspections and certification processes are needed to ensure the effectiveness of schools and hospitals, and the safety of buildings in which they provide their services. For at the least the next several years, routine administrative or judicial review of local ordinances will be needed.

Despite promising efforts in some cities and regencies, assessment team members believe that accountability remains a *major deficit area* for most subnational governments in Indonesia. Currently, local accountability is built mainly on a handful of relationships in which central government, CSOs, or national party offices are active. Local governments are accountable to central ministries, local politicians to parties, and DPRD to CSOs that represent ordinary citizens. Scores of other possible relationships are weak, inactive, or largely ignored. Observers report inactive or corrupt auditing agencies, limited DPRD skill in scrutinizing budgets, and limited media coverage (particularly outside Jakarta).

For local governments committed to democratic change there is a potential “supply side” of accountability. Officials can present themselves in a transparent manner through open council meetings, posting of minutes and budgets, newsletters, websites, public hearings, performance charters, more transparent procurement and hiring, etc. Accountability must include both elected officials and administrators. Mechanisms to reach both may include complaint adjudication boards, citizen report cards, citizen input into employee personnel reviews, and political polling. They can strive for ongoing operational accountability through citizen advisory boards and a variety of oversight committees. Elected leaders can install horizontal accountability compacts between the executive and legislators, and between both branches and administrative staff—e.g., through careful negotiation of annual work schedules and clear assignment of work responsibilities for budgeting, official planning, managing the legislative agenda, major procurements, etc.

An innovative concept emerging from this assessment is that a feasible approach for future local governance programming in the near term may be the introduction of a more efficient approach to the accountability challenge that works through multi-party relationships (*accountability covenants*) that bind a large number of actors together in support of shared aims. Local politicians and CSOs in Indonesia might organize a participatory planning process that first yields a shared vision then leads to formulation of an action plan. By assigning specific tasks to multiple actors, a dense network of mutual accountability is created—e.g., if participatory planning identifies a need to create local pre-schools, specific responsibilities might include the DPRD (to pass an enabling ordinance), the mayor or *bupati* (to establish a budget line for teacher honoraria), administrators (to locate and assign space in government-controlled buildings), CSOs (to recruit students and parent volunteers, and arrange for training of teachers), personnel of deconcentrated agencies (to arrange for transfer of excess school furniture), and parents of potential pupils (to initiate community fund raising programs).

## 2.4 FOSTERING APPROPRIATE LEVELS OF INDIVIDUAL AND INSTITUTIONAL CAPACITY

In order to perform functions transferred under Laws 22/1999 and 32/2004, subnational governments in Indonesia need to significantly improve their *capacity*. Ultimately, capacity needs to be increased at the level of the individual, organization, and system. On the individual level, capacity includes knowledge, commitment, and initiative. At the organization level, it includes the ability to undertake an entire chain of actions from agenda setting to policy formulation, to implementation, to assessment of results. At the system level, capacity includes the ability to institutionalize lessons learned through appropriate procedures, mechanisms, and performance standards. At all levels, knowledge and skills are important, but incentive structures are too.

Since decentralization commenced in 2000, the Indonesian government, international donors, subnational governments themselves, and other institutions have undertaken many initiatives to increase the capacity of provinces, cities, and regencies. Most efforts have focused on *training*. Central government programs of the State Training Institute and sectoral departments have provided regional government employees technical skills and structural knowledge. Donors have also supported training, USAID's Local Governance Support Program (LGSP); the ADB's Sustainable Capacity Building for Decentralization; the World Bank's Support for Poor and Disadvantaged Areas; and GTZ's Support for Good Governance, Urban Sector Development Reform, and Initiative for Local Governance Reform programs have all focused on subnational government administrators. Furthermore, provincial and district governments have taken the initiative of sending their employees (and sometimes DPRD members) for postgraduate degrees and specialized training at universities and training institutes. Training has generally emphasized individual knowledge and skills.

Too often, trainees are selected on the basis of seniority or favoritism, rather than on the needs of the governance unit. Under this scenario, there is little chance that the capacity of organizations and systems will be significantly affected. In any case, the assessment team has concluded that formal classroom training has been over-emphasized and the time has come for Indonesians to formulate a new vision of how local governance organizations and systems are to be transformed.

The *capacity* challenge for subnational governance in Indonesia can be divided usefully into two broad components. One component is *administrative staff*, assigned to provincial and local governments and to deconcentrated units of the central government. These individuals can perform many of their duties by utilizing the knowledge and skills, following the routines, and applying the procedures that were in place under the *Orde Baru*. The other component is a diverse set of actors—governors, mayors, and *bupatis*; NGO and university activists; business and religious organizations; ordinary citizens—that we might describe as *novice change agents of democratic decentralization*. Individually and collectively they are called upon to play dramatic new roles in local governance.

Organizing formal training for this large, varied group of novice change agents would be a daunting task. Executives and legislators do not necessarily perceive themselves as candidates for training. (They have already been singled out, first by their parties, then by the voters, for their exceptional leadership qualities). And university teachers may prefer to teach and coach others, rather than to be trained in playing their roles more effectively. Many ordinary citizens may be attracted by the prospect of training in “more effective citizenship.” But, they are too many and too heterogeneous to be targeted with a single type of training, and the majority of citizens trained are likely to remain passive anyway.

The best way to reach the group of novice change agents, and enhance their individual and collective capacity, is to entice them to become involved in broad-based community initiatives. They can learn “on the job” while participating in significant local governance work. USAID has already supported the development of an impressive variety of community initiative mechanisms across Asia, some already applied locally, others that can be modified for application in Indonesia. In the Philippines, mechanisms



for participatory *desa*- and *kabupaten*-level planning and systems for coastal and watershed management may provide useful models. Variations of this approach were introduced in North Sulawesi in 2002. A mechanism for facilitating participatory community consultations in tsunami-affected communities in eastern and southern Sri Lanka, and similar approaches that get citizens involved in planning and monitoring solid waste management systems and road maintenance, offer valuable guidance on how to engage politicians, administrators, CSOs, and ordinary citizens in collective analysis, priority setting, action planning, and implementation. USAID/Indonesia will be well served by undertaking an inventory of these mechanisms, beginning with USAID programs and those of other donors in Indonesia, then expanding the search to countries across the Asian region.

Administrative staff pose a different set of challenges for capacity building than the inexperienced change agents mentioned above. Overall, local governments and deconcentrated agencies in Indonesia are well staffed. Employee numbers compare favorably with other countries in the region; e.g. a *desa* in Central Java with a population of 2,900 has a dozen staff positions to support an elected headman, council, and neighborhood representatives. A comparable unit in the Philippines, a rural *barangay*, generally has two full-time positions to support its chairman and council members, while a *tambon* in Thailand supports its *kamnan*, village headmen, and village representatives with a part-time secretary and voluntary technical advisor. Many Indonesian *desas* with several thousand residents have larger administrative staffs than Sri Lankan *pradeshiya sabhas* with 25,000-30,000 residents.

Furthermore, employees of subnational governments and deconcentrated agencies generally have adequate professional training. The civil service system does not allow placement of individuals unless they meet formal educational (often including specific university degrees or technical school qualifications) and experience criteria. Great quantities of time and money have been expended on training (often assumed to be the only valid approach to capacity-building) for this group. The conclusion of the assessment team is that additional general training for subnational employees is not a primary need at this point. Instead, it will be more productive to focus attention on *specific skills and performance incentives* needed by the group.

One category of specific skills likely to be needed by many members of this group is *computer applications*—PowerPoint, Excel, web searches, accounting and project management software, GIS software, webpage construction, website management—that will find immediate use in employees' regular work, and enhance local government transparency. Another category is brief, practical training in skills that will raise service delivery or administration to a higher level—efficient routing for garbage collection, maintenance schedules for the motor pool, and more efficient inventories for health clinic storerooms. Perhaps the most important new skills needed are those that foster effective citizen participation in local governance—facilitating public dialogues, planning and implementing public hearings, and leading participatory planning exercises.

A major barrier to improving subnational governance capacity is the presence of misplaced *incentives* and inappropriate *disincentives* for effective administrative job performance. Regional governments generally lack incentives that encourage *individuals* to deliver their best performance or internal *organizations* to undertake needed collective actions to achieve governance goals. Furthermore, changes at the *system* level to institutionalize new incentives have seldom been attempted. These are not issues easily solved through training programs, nor indeed easily solved at all. Donors should respond cautiously to requests for training programs for subnational administrators and respond positively only if there are clear indications that short-term training aimed at specific skill areas will have positive impacts on local governance. If analysis shows that underperformance is the result of inappropriate incentive structures, rather than lack of specific skills, donors and their Indonesian partners need to look elsewhere for possible solutions. Ultimately, Indonesians will need more permanent solutions, such as establishing a separate civil service system with appropriate incentive structures for subnational governments and their employees.

### 2.4.1 Deficits and achievable goals in capacity building

Overall, despite positive signs in some localities, Indonesian subnational governments do not yet possess the comprehensive capacity needed to use their authority and autonomy well, and make themselves fully accountable to local citizens. Local governance *capacity*, like accountability, is multi-faceted. It is necessary to consider the individual capacity of politicians, civil society activists, and ordinary citizens. However, team members assume these individuals will generally *learn by doing* as they consult with each other, join in seeking a shared vision, develop action strategies, enhance local accountability, and pursue economic and social development. The assessment team believes learning by doing will be advanced most rapidly in the context of donor development projects that offer local officials and systems a broad range of models for accountability and community action.

For administrators, capacity is dependent on multiple factors, total *manpower*, formal *qualifications*, specific *skills*, and *incentive structures*. The conclusion of the assessment team is that the greatest deficits in administrative capacity currently occur in *specific skill* needs that arise in response to new administrative regulations and procedures, and *performance incentives*. Skill areas will often involve computer applications—e.g., health planners and tax assessors may benefit from training on specialized applications of Geographic Information Systems. Work on performance incentives will generally require careful analysis and explicit changes in administrative systems; e.g., underperforming teachers may be required to solicit “mini-evaluations” from students’ parents, and poorly regarded health clinics may be required to undertake an internal performance audit, solicit feedback from clients, and develop a plan to reorganize staff and improve services.

## 2.5 THE KEY DEMOCRATIC DECENTRALIZATION DEFICITS

**Authority:** Authority is granted from above, by higher levels of governance. Formally, subnational governments have been given the *de jure* authorization to perform a wide range of functions, and have been provided substantial staffs to undertake those functions. In reality, their authorized roles have been undermined by conflicting regulations, frequently altered procedures, competing services by central government units, and unfunded mandates. Despite a broad and genuine commitment to democratic decentralization, national institutions, including ministries and departments, and also political parties, are reluctant to cede their power, and have made few efforts to adjust their activities to the new context. Provinces and *desas* are awaiting clarification of their specific authorities and working relations with other subnational units. Overall though, despite legal and administrative shortcomings, subnational governments have adequate authorities, personnel, and financial resources to proceed with their work.

Shortcomings in authority represent a *moderate, not a major deficit*. To address this moderate challenge, the team has identified the need for stronger local government associations. Provinces, cities, regencies, and *desas* will benefit from fielding better-organized local government associations to represent their particular concerns vis-à-vis the administrative system. Furthermore, they will benefit from forming a single “association of associations” to support sustained political action on behalf of all subnational governments.<sup>16</sup> The assessment team is aware that local government associations have not, so far, been a major political force in Indonesian decentralization. However, we feel that modest efforts to support their work, perhaps beginning with issues arising in provinces where USAID is actively working with local governments, will be worthwhile.

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<sup>16</sup> The assessment team did not hear any strong expressions of interest in forming an association of associations, but feel it would be worthwhile for USAID to raise this possibility in the context of designing a new local governance project. A few Filipino local government leaders who have been involved with the League of Leagues might be able to provide a useful overview of the advantages and potential pitfalls of this approach.

**Autonomy:** Autonomy is earned over time, the product of trust on the part of central government officials, potential civil society partners, the business community, and ordinary citizens. Ultimately, provinces, cities, and regencies must seize the initiative in order to prove they are entitled to greater autonomy. By and large, novice subnational governments are still seeking a clear role for themselves, and are too heavily dependent on central government for their funding. They must begin to prove themselves through consistent performance in service delivery and significant initiative in articulating local visions and action strategies, and by generating a substantial portion of their revenues, perhaps one-third to one-half, directly from local sources.

Insufficient autonomy is a *major deficit*, but one that must be addressed over several years. Subnational governments need support in improving key services and introducing mechanisms to consult and collaborate with local citizens. Even more importantly, they need assistance in generation and effective expenditure of local revenues. The assessment team recommends that USAID work closely with subnational government partners on a few service delivery sectors. Staff should also undertake an assessment of the appropriateness of mechanisms for consulting and collaborating with citizens that have been applied successfully in Indonesia and elsewhere in Asia. Finally, although team members recognize the difficulty of the concept, and likely resistance from national officials and lack of enthusiasm from local officials, we strongly recommend an effort to support selected subnational government partners in generating significant local revenues. We suspect that the most promising approach will be in the context of a “certified experiment.”

**Accountability:** Accountability in subnational governance is a complex, multi-pronged process, buttressed by formal reporting, approval, and auditing systems imposed by central government; by demands from NGOS, media, and ordinary citizens for greater transparency and responsiveness; and by honest efforts of local officials to respond to demands. The fundamental accountability relationship, between citizen/voters and the local executives and legislators they elect, is of course at the core of accountability. Indonesian decision makers have taken needed steps to ensure the relationship is strong, and, with additional election cycles, it can be expected to grow stronger. Many steps are being taken in civil society and the media, and by some subnational governments on their own, to enhance transparency and accountability.

Thus, team members see accountability as an area of *major deficit*, where it is possible to work with partners and build on mechanisms that are already in place. But many potentially important *accountability dyads* are weak or unrealized; e.g. there have been few efforts to develop accountability relationships between local government officials and their counterparts in deconcentrated government offices. And local politicians and business leaders have seldom attempted to build sustained relationships of mutual accountability. To achieve greater efficiency in building accountability, the team proposes the concept of *accountability covenants*. These interlocking accountability relationships will be realized when progressive subnational governments successfully engage their citizens, civil society representatives, and employees of deconcentrated government units in the mechanisms for consultation and collaboration mentioned above.

**Capacity:** No Indonesian subnational governments have sufficient human and organizational capacity to fully exercise authorities provided under law. A first generation of elected officials, CSOs, and citizens are *governance novices* who have only begun to learn the skills and accept the responsibilities of democratic decentralization. In contrast, when compared to other local governance systems in the region, administrators in Indonesian subnational governments are relatively numerous, and have reasonable technical qualifications. While their performance is often inadequate, it is unlikely that generalized training will improve it. In the minds of many Indonesians and foreigners, capacity building and formal training programs are inextricably linked. Assessment team members do not necessarily accept this formulation. Alternative approaches to improving performance—e.g., learning by doing, changing incentive structures, and experimentation—may be more appropriate in many cases.

Assessment team members see capacity as a *moderate deficit* area both for *governance novices* and for local administrators. However, the deficit needs to be addressed differently for each group. The group of *governance novices*, particularly ordinary citizens, is too large and diverse to be the subject of classic training programs. Team members believe it will be more realistic for USAID-financed implementers to assume activist citizens will *learn by doing* through participation in consultative and collaborative mechanisms as discussed above. It may be appropriate to arrange small amounts of specialized training for local executives and legislators. Local administrative staff should be targeted mainly for specialized technical training essential for undertaking newly assigned or altered job responsibilities. Perhaps the most important intervention in upgrading local capacity will be efforts to analyze performance incentives for local staff, and experiment with management approaches that require or encourage better performance.

***Models of high performing provinces, cities, and regencies:*** Given the importance of building further confidence and experience with decentralization, there is a pronounced need for coherent, positive models of high performing provinces, cities, and *kabupatens*. Local politicians and administrators need a clearer vision of what to expect of themselves; citizen/voters need to know what qualities to look for while deciding how to vote; and NGOs, media, business associations, and religious groups need a realistic understanding of performance standards they should expect and arrangements they should strive for in working with subnational governments. Concerted efforts to overcome the deficits identified above can, if carefully documented and widely shared, contribute significantly toward building those models.

## 3.0 THE POLITICAL ECONOMY OF REFORM

Having identified and prioritized the key decentralization deficits and outlined some potential avenues of donor assistance, this section utilizes a political economy optic to weigh the feasibility of various DDLG approaches to reform. The interests of the key actors in Indonesian decentralization are reviewed in order to ascertain likely support or opposition to DDLG reforms. This section disaggregates the concept of political will according to a range of key actors.

### 3.1 KEY ACTORS AND THEIR INTERESTS IN DECENTRALIZATION

Key actors on the national stage include:

***Policymakers:*** Decentralization policy is generally initiated by senior bureaucrats in central government ministries, in accordance with presidential directives. Officials in Home Affairs, Finance, and Bappenas are generally responsible for initial drafts of bills and regulations. These officials appear to be committed to the long-term success of decentralization, but sometimes seem to feel that local governments are getting out of control, and act accordingly. Their dominant model of accountability is oversight from their ministries.

***Legislators:*** Members of the National Assembly (*Dewan Perwakilan Rakyat* [DPR]) represent their home provinces, but under a proportional representation system are beholden to national party officials who select candidate slates. Members of Commission II are tasked with oversight of matters affecting subnational governments. While some members of that committee may be sympathetic to local government concerns, they can be expected to weigh the implications of proposed legal, budgetary, or procedural changes for their party (and its electoral prospects) before supporting any policy shifts. Members of the “upper house,” the *Dewan Perwakilan Daerah* (DPD) are officially tasked with representing the concerns of local governments and communities in the legislative process. However, the DPD has been effectively sidelined from the legislative process, and the concerns of local governments are not effectively voiced in the national legislative process.

***Party officials:*** Local government elections give national parties an opportunity to gain power, seats, and adherents in nearly 500 provinces, cities, and regencies. National party committees retain the power to approve individual candidates for local executive positions, though their control over successful candidates may wane in future elections, as some governors, mayors, and *bupatis* build personal support bases through effective programs and charisma. Under a proportional representation system, national committee members retain their control over selection of entire slates of DPRD candidates.

***Local government associations:*** Half a dozen local government associations, each representing the executive branch or legislature at the provincial, city, or regency level were established under the authority of Law 22/1999. The new groups were mandated to speak on behalf of their members and advise the President through their representatives to the high level Advisory Board on Regional Autonomy (DPOD). While some associations have, with assistance from donors, developed useful service and educational programs for members, their ability to lobby and shape relevant policies has been very

limited. The DPOD, the primary formal organ for influencing the national government, is chaired by the Minister of Home Affairs, and seldom meets.

**NGOs:** National level NGOs, accustomed to approaching senior bureaucrats and DPR members directly, and to shaping policies and organizing programs from the national level, may be inclined to underestimate the capacity of subnational governments, and may lack the particular skills needed to work with them. A few Jakarta-based groups, such as KPPOD; with access to senior scholars, trained researchers, and donor funding; have undertaken useful research on decentralization issues.

**Business associations:** National level business associations representing major firms are accustomed to dealing directly with senior government officials. While individual companies may evolve reasonable working relations with provinces, cities, and regencies, collectively the large firms are suspicious of subnational governments, fearing higher taxes, a stronger emphasis on worker rights and, perhaps, tighter environmental controls.

**Media:** National newspapers and television networks have covered subnational governments, but mainly in a “Jakarta-centric” manner. There is far more attention to exposés and criticism than to careful examination of policy issues, coverage of local good practices, or sympathetic coverage of the problems local officials face in dealing with their national counterparts. Jakarta and nearby cities and regencies receive far more coverage, negative and positive, than do provinces, cities, and regencies in other parts of the country.

Key actors in provincial and local governments include:

**Local executives:** Local executives are inexperienced in performing their functions in a democratic, transparent manner and can derive little more than negative lessons from their observations or experience in the pre-democratic era. In the absence of a steady demand from civil society, relatively few governors, mayors, or *bupatis* take the initiative to provide space for citizens to participate in policymaking and implementation. Their indifference or resistance has multiple dimensions, some based in human nature: 1) few individuals, particularly those who run for public office, like to share power unless it is absolutely necessary; 2) for leaders accustomed to centralized authority and opaqueness under the *Orde Baru*, a more open governance style seems to signal weakness and incompetence; 3) participatory processes can be long and tedious, and invite complaints and personal attacks that executives seldom like to hear; and 4) open governance limits opportunities to seek illicit payments or build patronage networks.

On the other hand, executives need to learn that there can be positive benefits from participatory governance. It gives leaders a clearer understanding of what ordinary citizens want, and thus a better chance to satisfy them prior to the next election, and working with citizens to build a shared vision and priorities for local governance can build political and even economic support for specific activities. However, the benefits of open governance do not flow automatically from good intentions. Specific systems and skills are needed. However, in most cases, neither elected leaders nor their administrative staff possess specific skills needed to facilitate effective participation, nor do most local executives possess significant skills in democratic leadership. Even those who gain public office are more accustomed to soliciting guidance from hierarchical superiors than seizing the initiative and fostering local ingenuity. And they have little experience in supporting new initiatives in public services and internal management systems.

**Local legislatures:** In the first round of DPRD elections, few newly elected legislators entered office with adequate knowledge and experience to perform their duties well. There has been modest improvement in the second round. However, up to the present few political parties have developed selection strategies or training programs adequate to ensure their candidates possess the needed capacity. Most observers are of the opinion that the most fundamental DPRD role, drafting and passing local ordinances, is still not

performed well in most localities. In a few provinces and districts, DPRDs have begun to introduce legislation, but the great majority of enacted ordinances are still initiated by the executive branch.

However, despite shortcomings in drafting and reviewing legislation, there is evidence that DPRDs are gradually improving their capacity and expanding their overall role. For example, some DPRDs have begun to sponsor public hearings on the budget and proposed legislation, and to conduct council and committee sessions in public. DPRD members have displayed an increased capacity to review and criticize budget drafts from the executive branch, in part by introducing new standards for setting an overall budget ceiling, and determining priorities among competing programs. The capacity of individual DPRD members to initiate legislation has increased, largely due to legal drafting training provided by donor programs.

Key actors in civil society at the local level include:

**Universities:** Despite current regulatory limitations on their participation in local governance,<sup>17</sup> universities represent a major resource for capacity building and reform. Dozens of institutions have brought significant energy and creativity to finding new, productive roles in democratic decentralization. Reputable universities generally possess qualified personnel, modest funding, and traditions of community service. They can bring these to bear on helping provincial and local governments improve services, undertake administrative reforms, and plan new initiatives. Some universities—e.g., Diponegoro in Semarang and Gadjah Mada in Djogyakarta—have arranged internships so their students can participate in anti-corruption and governance monitoring programs. In addition, their social science faculties have worked with provincial and district governments to set up village level “social laboratories” to pilot governance initiatives, economic development programs, and collaboration with key sectoral agencies.

This work, and lessons learned from performing it, can be significantly expanded with modest funding from donor projects. Some universities also have significant numbers of part-time masters’ degree students drawn from local government politicians and administrators. With a little effort and creativity, these students can be molded into a significant force for reform—e.g., by encouraging them to adopt complementary, local-governance oriented thesis projects and helping them to share good practice information through websites and periodic workshops.

**CSOs/NGOs:** The great majority of CSOs are not yet comfortable working on policy issues in local governance. In many areas, authentic, strong CSOs do not yet exist. And even if organizations exist and are seeking a role in local governance, they may have significant institutional weaknesses—low capacity to articulate their clients’ concerns, lack of organizational sustainability, poor coordination with potential partners, and absence of a long-term institutional vision. Even groups that have already found a productive role may need to move beyond their current niche and *take their skills and programs to the next level*. For example, having persuaded a city government to commit more resources to funding and staffing daycare centers, a women’s group may decide to take the next step by working to ensure the quality of daycare teachers and services they provide. Or, having extracted a promise from the governor and senior administrators that future procurements will be competitive and transparent, a “good governance” CSO staffed by social science and humanities graduates may decide to hire engineers, lawyers, and accountants to bring their particular expertise to bear on major procurements.

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<sup>17</sup> Under Presidential decrees 80/2003 and 61/2004, a government agency (e.g., a state university) cannot provide services to other government agencies (e.g., local governments) on a profit-making basis, except under certain urgent conditions, such as natural disasters, security threats, or challenges to public safety. On the other hand, in addition to their core duties of undertaking research and teaching, the education law obliges universities to undertake community services. Many institutions regard this as an explicit invitation to work closely with regional governments.

**Religious associations:** With USAID funding and Asia Foundation support, members of major Islamic associations, the NU and Muhammadiyah, have explored the manifold relationships between their religion and Indonesian democracy for nearly a decade. Tens of millions of their members are formally committed to democratic values. Neither group supports a particular party. But, since the advent of democratic local governance at the beginning of 2001, both pressure their members who run for local government offices to be honest and to work on behalf of the poor and powerless.<sup>18</sup> Members of local chapters take part in public dialogues, help to monitor budget planning and approval, and lobby for funding of pro-poor programs.

**Business:** With few exceptions, mostly in cases where local groups have benefited from the support of the LGSP, business associations have not yet found effective strategies for pressuring subnational governments for better services, policies, and procedures. In some unfortunate cases a negative standoff develops; businesses protest against inadequate services but refuse to entertain proposals for higher taxes. Businesses, working through their local associations, and local politicians and administrators, need to make joint efforts to learn the skills of dialogue and collaboration.

**Local media:** Local media consist of daily or weekly newspapers in provincial centers and several dozen local radio stations. Many of these were recipients of training and other support from InterNews (under USAID funding) in the recent past. Some of these units have begun to cover local government, but few reporters have become fully effective in covering the more subtle aspects of local politics and administration.

## 3.2 PERSPECTIVES ON DECENTRALIZATION

The objectives of democratic decentralization are likely to shift over time. In assessing current objectives, analysts must take particular notice of the views of national decision makers—the President, Vice President, cabinet ministers, DPR committee heads and ordinary members, senior and mid-level bureaucrats, party officials, and even elite business leaders—who may have strong views about decentralization. Collectively they are in the best position to ensure their priorities are reflected in official policy, laws, and bureaucratic procedures. It is also necessary to recognize the presence of “outsider” views emanating from other governance levels (provinces, cities and regencies, *desa*) and stakeholders (NGOs, CBOs, deconcentrated civil servants, local government associations) within the system. Outsiders may also attempt to shape laws, policies, and procedures.

Assessment team members believe that *stability* and *democracy* are currently the dominant objectives of Indonesian decentralization. However, given that potential threats to national unity from peripheral provinces are currently at a low ebb, it seems likely that the prominence of stability as an objective will recede over the next few years. It remains to be seen if this will bring democracy to the fore as the single dominant objective, or allow for greater emphasis on economic growth. This may be an opportune time for donors, including USAID, to support Indonesians in a re-examination of democratic decentralization objectives. Without taking a direct role in policymaking, it may be useful to propose support to a respected Indonesian or regional institution to convene a visioning exercise on the topic: “Where do we want to be in democratic decentralization in A.D. 2020?”

Assessment team members believe government decision makers are, in almost all cases, firmly committed to democratic decentralization. Some policymakers and DPR members may perceive that local politicians and administrators have gotten out of control and exceeded their authorities. They may believe some behaviors should be reined in. But overall, policymakers and the laws and regulations that have so far

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<sup>18</sup> Candidates in Central Java are warned by NU leaders that, if they succumb to temptations and misbehave, “we won’t pray at your funeral.”



been enacted are clearly on the side of competitive local politics, responsive local service delivery, and citizen participation in governance. Real differences in perspective are not focused on the ultimate goals of decentralization, but on how the process is to be organized and implemented. National decision makers support a process that is rational, rule-bound, and vertical. Local participants in decentralization, notably elected leaders and senior administrators generally prefer a process that is informed by experience, collegial, and horizontal.

### 3.3 FEASIBILITY OF ALTERNATIVE APPROACHES TOWARD DEMOCRATIC DECENTRALIZATION

More than 2,000 years ago, Plato posited an ideal governance system led by an elite class of *guardians* he assumed would have the intellectual capacity and empathy needed to assess and meet the needs of the governed. As in most contemporary authoritarian systems, *Orde Baru* leaders routinely justified their dominance by claiming a role as guardians for Indonesian subjects too irrational and ill informed to identify their own needs. Outwardly, a political transition in 1998 and reliance on democratic decentralization as its cutting edge from 2001 represents a broad rejection of guardianship as a credible political theory. Policymakers have democratized governance structures—provinces, cities, and regencies—that were under the thumbs of colonels and brigadier generals little more than a decade ago. In doing so, they have created innumerable opportunities for feedback loops and accountability in subnational governance.

Thus, it is ironic that policymaking for local governance, involving successive generations of laws and implementing regulations since 1999, has given little emphasis to feedback and transparency. Indonesian researchers and academic specialists, and international experts on decentralization are consulted, and may even be allotted a role in legal/regulatory drafting. This is a useful, but partial, effort to open the process. The DPD was established to play a feedback role *on behalf of* communities, local governments, and ordinary citizens, but has largely failed in this role. So far, local governance policymaking has been a relatively closed, largely bureaucratic, process. Given Indonesia's commitment to democratic change, it is appropriate to create a more transparent and openly political process.

In sum, this review of key actors demonstrates a constellation of interests that is in the main favorably disposed in regards to the reforms implemented to date and which provide a foundation of political will to address the remaining key decentralization deficits. But the above disaggregation of actors also reveals that as the primary objective of Indonesian decentralization continues to move from stability towards democracy, it will be essential to further empower elements at the base of the country's governance structures.

# 4.0 INSTITUTIONAL ARENAS FOR REFORM

This section takes a closer look at the institutional arenas in which decentralization reform actually occurs. This examination of the rules and incentives that structure the decentralization process is intended to provide insight on the levels of intervention that donor decentralization programs are likely to find greatest traction.

## 4.1 NATIONAL ARENA

### 4.1.1 Formal Framework for Local Governance

The formal framework for local governance has received regular attention since 1999 through several decentralization/local governance laws and scores of implementing regulations. Specific authorities for units at the mid-level of the subnational governance system, the cities and regencies have been spelled out in substantial detail. The specific authorities of provinces at the top of the system, and *desas* at the bottom require further definition, but informants report that work is under way on a provincial law. At least one energetic group, from Gajah Mada University, is lobbying for legal clarification (and perhaps an expanded role) for the *desa* level.

The primary issues regarding the formal framework are not its existence or completeness, but the extent to which technical/service ministries are willing to adapt their operations to the framework, and the manner in which it will be reviewed and revised in the future by core ministries responsible for supervision and oversight of decentralization.

### 4.1.2 Decentralization Reform and National Policy Issues

The ministries that ceded personnel and service delivery responsibilities to subnational governments were, by implication, tasked with reforming and deconcentrating some of their remaining functions. In the long run, effective deconcentration should be the product of honest, concerted efforts by national ministries and departments to rethink their missions and administrative practices in the context of decentralization. Deconcentrating significant resources and authorities to units organizationally parallel to the provinces, cities, and regencies can provide a powerful impetus to democratic decentralization.

Deconcentration will serve decentralization best if personnel in those units receive incentives to play supportive and collaborative roles. If the primary purpose of deconcentrated units is to continue delivering services in competition with subnational governments, the decentralization process will not be well served. The divergent strategies adopted by two central government departments while the Philippines was decentralizing in the 1990s illustrate this point; the Department of Trade and Industry deliberately structured field operations for collaboration with provinces and municipalities. Annual grant budgets were made available through regional offices to support economic development strategies of

provincial and municipal partners, and Department of Trade and Industry (DTI) professionals were encouraged to work closely with provincial and local counterparts. In contrast, the Department of Agriculture made few adjustments. Researchers and extension specialists continued to support for their long established programs on subsistence grain crops. At the same time, many local governments had chalked out economic development programs to encourage production of high value and export crops. Because all resources were committed elsewhere, Department of Agriculture assistance (applied research and extension services) on organic farming, quality control, grading, packaging, and shipping of high value crops was not forthcoming.

Until now, Indonesian central ministries have lamentably more often followed the example of the Department of Agriculture than that of the Department of Trade and Industry. There is little evidence they are transforming the budgets, decision making authorities, and personnel incentives of their deconcentrated offices. Nor are there indications they will do so in the near future. Subnational governments are not yet well placed to pressure ministries and departments to adopt more collaborative administrative systems. At some future point, when local government associations are strong, this may be a national-level policy challenge worth taking on.

For the present, local governments will be better served by seeking partial solutions at the local level. Under the circumstances, they need subtle strategies to entice, cajole, and coach personnel of deconcentrated offices to play more collaborative roles. Professionals from central ministries can be invited to take an active role in participatory planning exercises—e.g., by delivering brief lectures and joining visioning and action planning exercises. As particular activities are identified and prioritized in the planning process—e.g., establishing parent-financed pre-schools, organizing an HIV/AIDS prevention program, installing solar panels at schools and clinics—specialists from regional health, education, agriculture, and engineering offices can be called on to provide technical support and advice. Thus the process of deconcentrating offices of central ministries to the demands of decentralization can begin.

### 4.1.3 The Enabling Environment for Reform

The committee established to advise the President on decentralization and presumably to shape the decentralization process, the DPOD, is not currently playing an effective role. The Minister of Home Affairs, himself a former provincial governor, seldom sees fit to assemble a committee that includes representatives of all six local government associations. Laws and implementing regulations continue to be formulated largely by administrators within MoHA, MoF, and Bappenas. Hence, a distinction has emerged between those national agencies and ministries that treat decentralization largely as a bureaucratic process and those local leaders who approach it more as a political process. It is ironic that local government leaders and community activists have not been allocated a significant role in shaping decentralization policies. The core ministries responsible for democratic decentralization can improve the process by rendering their policy dialogues more inclusive.

Policymakers in those ministries deserve significant credit for their efforts to foster local democracy and devolve appropriate authorities to cities and regencies.<sup>19</sup> But, in the absence of guardian-like empathy and analytical skills, future efforts in drafting laws and regulations, then implementing them, will be best served by concerted efforts to obtain feedback from groups and individuals participating directly in subnational governance. The process needs to be broadened beyond the essentially *vertical* strategy—centrally imposed laws and regulations, upward reporting, downward approvals, *socialisasi*—currently in use. The process can be improved by introducing a variety of *horizontal* tactics.

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<sup>19</sup> Laws to establish an appropriate base for provincial and *desa* governance are thought to be forthcoming.

The concept of *certified experimentation* would allow selected provinces and local governments, and their donor partners, to experiment with specific delegated authorities for a few years before a firm yes/no decision is made to extend those authorities to subnational governments across Indonesia; e.g., it would be useful for a few cities and *kabupaten* to experiment with local assessment, collection, and expenditure of the Land and Building Tax for a few years. Then, if the experiment proves successful, a plan could be developed to spread the authority across the archipelago.

Formal *delegation* to the provincial or regional government level can be a useful mechanism for experimentation. Alternate approaches for delivering a particular service can be tested for efficiency and effectiveness. Responsibilities (e.g. for managing agricultural stations or inspecting secondary schools) can be temporarily delegated to a province in one case, in another to constituent cities and regencies, to learn which approach works best. While it is not clear that the experimental potential of delegation has been recognized among senior policymakers in Jakarta, it may be feasible for donors to propose this approach while working with provinces and local governments during the next development plan period.

There could be greater reliance on *peer-based processes*. Rather than imposing centralized, bureaucratic procedures for assessing performance and identifying areas of needed support of subnational governments, ministries could work with local leaders to develop peer-based approaches. A group of mayors could assess the transparency of governance in cities in adjacent provinces. Or the effectiveness of the experiment in delegating the Land and Building Tax to regencies could be assessed, in part, by a group of *bupatis* not directly involved. Central ministries could also make use of periodic *focus group discussions*, bringing together subnational government leaders from different governance levels and different parts of the country.

Central ministries could be encouraged to work more collaboratively with *local government associations*. The six associations<sup>20</sup> representing provinces, cities, and regencies could be asked, as a standard procedure, to designate representatives to all planning and drafting committees for local governance laws and regulations, and could also participate in certified experiments and peer-based processes proposed above.

Finally, central government units could consciously adopt *collegial* rather than bureaucratic working relationships with subnational governments through *memoranda of agreement* or formal *contracts*. A certified experiment on the Land and Building Tax could be the subject of a carefully designed series of MOAs between the Ministry of Finance and Ministry of Home Affairs on one hand, and participating regencies and cities on the other. The MoF might agree to provide technical training on assessment and collections, while local governments pledge to accept periodic visits by peer review panels, and to submit annual reports in an agreed format.

## 4.2 SUBNATIONAL ARENA

### 4.2.1 Nature and Stability of Subnational Units

Despite complaints to the contrary by local executives, provinces, cities, and regencies are rather well staffed and well funded. Overall, they have political structures that are adequate for the functions they are assigned to perform. No informant that met with the team questioned the appropriateness and the future

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<sup>20</sup> The six local government associations formed after enactment of Law 22/1999 are: APPSI, representing provincial governments; ADPSI, representing provincial councils; APEKSI, representing city governments; ADEKSI, representing city councils; APKASI, representing regency governments; and ADKASI, representing regency councils.

role of the current three tiered—province, city and regency, and *desa*—local governance system. It seems safe to assume each level will retain substantially the same political form currently in place. Significant changes will come mainly in administrative and fiscal arrangements.

Nevertheless, a few moderately challenging political issues remain. The representative function is weak for DPRDs. Party-selected candidate slates have no obvious relationship to districts within a city or *kabupaten*. Thus citizens have no clear connection to a legislator that actually represents them nor other ready entry points into the legislative/policymaking process. At some point, policymakers and local government associations may wish to consider alternatives, perhaps a mixed system in which some candidates contest to represent districts, while others belong to party slates. If this is unacceptable, a quasi-formal system of representation might be tested. Following a precedent set by some local governments in Sri Lanka, a council might assign members to represent particular districts.

*Kota* and *kabupaten* councils are larger than they need to be. With as many as 20-45 members and no clear representative function, some legislators almost inevitably become “back benchers.” Under-worked council members are likely to be distracted into unproductive activities—e.g., demanding the perks of office or engaging in fruitless factional competition. And they may be tempted to accept bribes to sell a favorable vote. One solution may be to keep legislators busier (and more productive) by expanding the number of committees and the scope of their work. But it may also be appropriate at some point to investigate whether DPRDs need to be “right sized.”

Good intentions that are reflected in the provisions of Law 32/2004 that mandate chief executive elections are offset to some degree by weaknesses in detail. Notably, the electoral provisions create a risk that executives will be elected to office with very fragile mandates. There is no prescribed runoff system if no candidate receives a majority of votes in the first round. A minimum threshold of 25% means that an election winner with a plurality of votes might have nearly three quarters of citizens voting against him. The Law also creates a risk of unproductive intra-executive-branch competition. Executives and their deputies run separately, not in tandem. As a result, a governor and his deputy, or a mayor and her deputy, may be elected from different parties, and spend an entire term undercutting each other.

But the judgment of the assessment team is that detailed analysis and final solutions for these issues can wait until more progress is made in the areas that are prioritized in this assessment.

## 4.2.2 Intergovernmental Relations

Although provincial governors are elected by the citizens, they find themselves in an anomalous role. On one hand they are senior politicians, potentially powerful even at the national level; on the other they are required to be local agents of the central government. Jakarta bureaucrats can enhance the governors’ role by delegating significant responsibilities, or shrink their influence by taking them away.<sup>21</sup> Provincial administrators find themselves in a similarly anomalous position, on one hand overseeing service delivery in key sectors for central ministries, on the other hand lobbying for personnel and financial support for their own programs and those of the province’s constituent cities and regencies. The head of the Provincial Health Office in Central Java expressed his frustration with central bureaucrats that turn down or alter personnel hiring requests on one hand, while making him publicly responsible for unfunded mandates, such as the requirement for new AIDS Commissions in each city and regency.

The most contentious issues between central government departments and subnational governments have focused on control over significant natural and manmade resources. Law 22/1999 apparently granted

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<sup>21</sup> Their anomalous position may also reflect a desire among national party officials and DPR members to restrict their power.

regencies and cities authority over these resources. In East Java and South Sulawesi there were disputes regarding control of forests, mining, seaports, airports, and other resources. Local governments asserted their authority as a consequence of a “broad autonomy” principle, while central government units asserted they retained authorities in place before enactment of 22/1999 and 25/1999. There were disputes with the National Land Agency, Ministry of Forestry, Ministry of Mining, Coordinating Board of Investment, Ministry of Manpower, and State Owned Enterprises. Either local governments had misinterpreted their authorities, or there was a lack of willingness to share authority on the part of central government. In any case, the local governments lost out in most instances.

### 4.2.3 Political Competition

In the initial electoral rounds, political competition in provincial and local government elections has been played out largely as confrontations among the ideologies of national parties and their claims on voter loyalties. This demonstrates that the political parties have generally not themselves yet fully adapted to democratic decentralization. In only a few cases have local elections been about local issues and focused around local party platforms. However, this can be expected to change in the next round of chief executive elections, as popular governors, mayors, and *bupatis* run for re-election on their records in local governance, and their opponents offer explicit alternatives.

A proliferation of parties contesting local elections may be opening political arenas in significant ways. One interesting political dynamic is the successful entry of minor parties into local executive elections. Parties that polled less than three percent of total seats in the DPR, and thus lost their right to contest national legislative elections, had better success locally. In 20 cities and regencies, small parties won the election for regional head, including East Belitung Regency, Bangka Belitung Province; Banyuwangi Regency, East Java; and Sintang and Sekadau Regencies, East Kalimantan. Another emerging practice is formation of coalitions for specific elections among political parties that claim significantly different ideologies; e.g., a “nationalist” party may ally with an “Islamist” party in one district, and compete directly against them in another.

In many ways, *national parties* are still feeling their way toward effective roles, particularly during the periods between elections.<sup>22</sup> Most have yet to develop training programs for youth and women, and provide minimal guidance for novice candidates. There seem to be few efforts to weed out corrupt individuals during selection of party slates,<sup>23</sup> and few instances in which parties have investigated or punished their members who are accused of corruption. Parties need to master new roles—e.g., in organizing training and holding party standard bearers to high professional standards.

The *role of local party branches* needs to be better understood. What role does the local party unit play vis-à-vis daily activities of their executive or legislative representatives? Do they offer advice or assist with research? Do they caution individual executives or legislators against illegal or reckless behavior? Are there local “whips” that persuade legislators to support party positions? Are there forces for reform in the party, e.g. a group of executives getting together in make internal party operations more transparent?

The local government sphere would benefit greatly from the “cross-cutting” presence of politically savvy local government associations that represent the interests of local governments and their political leaders, particularly when their interests diverge from those of national party leaders and DPR members. Where

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<sup>22</sup> The substantial efforts of NDI, IRI, and the German stiftungs need to be recognized, but parties can proceed much farther in training, coaching, supporting, and disciplining their representatives in local government.

<sup>23</sup> On the contrary there are allegations that some parties require aspiring politicians to buy their candidacies.

interests are shared among different levels of subnational governments, their interests might be appropriately represented by an “association of associations.” The associations already play a useful service role by organizing training on such practical skill areas as budget review, committee work, and oversight of executive departments. In the future, as local politicians and administrators become more experienced and sophisticated, this can be organized as peer training. The associations also need to build a research and data collection service capacity to support policy work at the national and local levels—e.g., by hiring researchers skilled in searching the Worldwide Web.

#### **4.2.4 Elected versus Administrative Functions**

Chief executives of Indonesian subnational governments are well placed in regard to administrative and service delivery staff. Staff sizes are quite large in comparison to those of equivalent local government units elsewhere in Asia.<sup>24</sup> In part this reflects the wider span of responsibilities assigned to subnational units in Indonesia. But, in fact, virtually all administrative and service functions are more generously staffed than elsewhere. However, this does not necessarily represent a commitment to full service in local administration. Rather, it in part also reflects a practice whereby regional election winners reward their key followers and allies with appointments to jobs in local government. While patronage politics are hardly unique to Indonesia, the lines of accountability need to be better defined to improve the responsiveness of Indonesian local government to citizens within communities.

Despite a standardized civil service system that encompasses both national and subnational government employees, executives have far more control over hiring, promotions, incentive systems, and organization of work units than their counterparts elsewhere; e.g., a small city mayor in Sri Lanka “commands” a professional staff that consists almost entirely of individuals seconded from central government units. The planning officer, tax assessor, environment officer, public health officer, or engineer may be transferred at any time, often with notice of no more than a few days. It may be months before a replacement is supplied, and the mayor has no right to reject an assigned individual. Personnel cadres must be approved by central government officials, and often reflect managerial requirements as they existed two or three decades ago. Compared to their Sri Lankan counterparts, Indonesian local executives enjoy a high degree of control over their staff, and thus over administrative and service functions.

#### **4.2.5 Administrative Adaptation**

Devolution of authority, particularly to cities and regencies, has been given close attention by policymakers throughout Indonesia’s brief history of democratic decentralization. Laws, regulations, and policy shifts have been devoted to “getting devolution right,” as perceived by senior bureaucrats and lawmakers. However, democratic decentralization cannot be accomplished simply by focusing on transfer of appropriate legal authorities. As noted above, the role of deconcentrated government units must also receive due attention, and delegation should be regarded as a potential experimental tool. Without complementary adjustments in those areas, devolution will not be fully realized. Furthermore, major policy shifts must be accompanied by innumerable interventions made real through thousands of agreements, procedures, and everyday adjustments.

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<sup>24</sup> Compare the staff size of a smaller province with about a million citizens with a similar province in the Philippines and another in Sri Lanka.

Administrative arrangements must be worked out with higher and lower levels of government; e.g., regencies must work with their component *desas* on managing the smallest health clinics, and agree on procedures for calling on provincial health officials to assist during local epidemics or natural disasters. Workable synergies must be developed both with traditional and modern community institutions. If a regency wishes to develop a management scheme for a local watershed, it will need to work closely with traditional irrigation associations. If a city decides to promote pre-schools it may benefit from working with an NU or Muhammadiyah women's association.

#### 4.2.6 Becoming More Assertive in National and Provincial Policymaking

Subnational governments need to become more assertive, and more politically effective, by working through their separate local government associations and by forming and supporting an “association of associations.” This will enable local executives and legislators to weigh in at the national level on important policy issues, and to do so across party lines. It will also be advantageous for cities and regencies to assert a stronger role for themselves in provincial affairs. Provincial chapters of city government and DPRD associations, and counterpart associations for *kabupaten* governments and DPRD (four associations in total) could each designate a representative to attend provincial council meetings and meet regularly with the governor. This would give local government leaders an important voice in provincial policymaking, and also build stronger communication channels for more routine coordination and collaboration.

It may also be possible to extend the concept of the local government association down to the level of the *desa*. Building an association of 62,000 community-level governments, many headed by individuals of limited education, is clearly a daunting task. However, the existence of the *Liga mga Barangay*, an association of 42,000 community governments in the Philippines, suggests that a national *desa* association is not completely out of the question. The fact that 3,000 *kepala desas* in Central Java have already organized themselves and begun to articulate demands through the media suggests there is a felt need for such an association. The appropriate locale to initiate a *desa* association is probably in a *kabupaten* where the *kepala desas* are enthusiastic (and perhaps have already begun to organize), the *bupati* and DPRD members are supportive, and some civil society groups are willing to take on the challenge of fostering a new group. The new group could be legitimized by selecting a few representatives from among *kepala desas* to attend regency DPRD meetings and meet regularly with the *bupati*.

### 4.3 CIVIL SOCIETY

#### 4.3.1 The Role of CSOs

Since 1998 there has been an explosion of NGOs in Indonesia, including thousands of new groups at provincial and local levels. While most focus on delivering services or community organizing, some have found a role in democratic decentralization through applied research, policy formation, and advocacy, thus claiming the role of “civil society organization.” Having observed the number of participants and volume of activity among NGOs, and an increasing number of CSOs involved in policy advocacy, many analysts have assumed Indonesia has a strong and vibrant civil society. There is substantial truth in this assumption. Like their counterparts at the national level, some provincial and local level CSOs have begun to assume significant roles in local governance.

They find roles in planning, budgeting, and monitoring local governments and deconcentrated agencies on issues of transparency and integrity. Specific activities may include convening community forums that



gather politicians, senior administrators, journalists, and even military commanders to exchange knowledge and ideas concerning local issues and policies. Involvement in planning activities may begin with assistance in organizing participatory planning (*musrenbang*) sessions and influencing the final content of mid-term (RPJMD) and long-term (RPJPD) development plans, and then proceed to lobbying the DPRD for bigger budget allocations for specific services, scrutinizing budgets for possible misallocations or potential fraud, and exposing their findings through the media.

Local governments can benefit greatly by deliberately developing partnerships in civil society. Participatory planning exercises and regular consultations with business leaders may lead to problem solving in such key areas as parking, traffic management, solid waste disposal, and vocational training programs, and may eventually bring acceptance by business people that higher taxes are appropriate. NGOs may be called on to deliver needed services, and also to facilitate consultations with local citizens and advise on improving transparency and public participation.

### 4.3.2 Degree of Representation

Thus, a number of groups have proceeded stepwise beyond their conventional roles in service delivery and community development. Policy work related to the sectors where they are already working—e.g., delivery of health services or informal education—leads to partnerships with ordinary citizens to focus on budget review and local legislation. These become significant exercises in transparency, enabling CSOs and their clients to demand greater accountability. Later, CSOs may play more collaborative roles with local governments, while simultaneously creating new opportunities to get involved. They can serve as trainers for citizens and local government staff members, as conveners of meetings between local officials and citizen groups, and as facilitators of public dialogues.

But the process of helping citizens become effective advocates can be painfully slow. Few of them have the skills needed to organize for collective action and demand better services. At this point, most ordinary residents still wait for paid staff of an NGO to identify their concerns and voice their demands. In theory, involvement with an NGO provides significant opportunities to learn to advocate independently. In reality, overcoming ingrained passivity is difficult, and most clients remain dependent. So far, few CSOs have mastered techniques for overcoming passivity and transferring skills and responsibility to community residents they are assisting.

### 4.3.3 National CSOs and Their Affiliates

Indonesia's strongest national civil society organizations are two Islamic groups, Nahdlatul Ulama (NU) with an estimated membership of 30 million, and Muhammadiyah with an estimated membership of 29 million. Both groups have memberships concentrated mainly in Java, but also support local chapters on other islands, and have hundreds of local chapters. Through a full panoply of associations for youth, women, students, etc. and provision of social services such as schools, universities, and clinics, they are all-encompassing religious/social/political organizations. They encourage citizens to get involved in local governance and, without officially supporting a particular political party, encourage members to run for office as local executives or DPRD members. Local NU and Muhammadiyah chapters can be expected to play a positive, and sometimes active, role in demanding transparency and accountability at the local level.

#### 4.3.4 Enhancing CSO Skills for Work in Local Governance

Figure 1 posits an evolutionary path for NGOs committed to collaboration with subnational governments. It assumes a need for increasing programmatic flexibility and managerial sophistication as groups move from specific programs in service delivery and community development, to initial efforts to enter the political arena while advocating for adequate budgets and a supportive legal framework for those specific programs, to a broader commitment to work for public accountability and collaborate with local governments.

Until now, relatively few Indonesian organizations have followed this evolutionary path toward full, effective participation in subnational governance. Not all should. There is still ample need for groups that deliver services and organize communities at the grassroots level. However, decentralization will be well served if more groups become involved in advocacy (thus eliciting greater transparency and accountability) and in direct collaboration with subnational governments (thus supporting enhanced capacity and expanded opportunities to build local autonomy).

Donor support for democratic decentralization will be significantly enhanced by deliberate efforts to include civil society partners in efforts to build positive, coherent models of high performing local governments. If there are groups already on site and playing a useful role in advocacy, it may be possible to entice them into closer collaboration with local governments through modest funding and challenging new opportunities for service.

#### 4.4 FACTORING IN INSTITUTIONAL ARENAS

Members of the assessment team assume that national policymaking for democratic decentralization will continue to roll forward. Clarifying the specific roles of the provincial and *desa* levels, particularly in relationship to those of cities and *kabupatens* is likely to be useful. Providing additional revenue generation authorities to all levels of subnational governance would be extremely useful, but we have seen no indications that it will happen. We believe it is timely and appropriate for donors to encourage national policymakers to adopt more “horizontal” tactics in doing their work. However, we recommend that USAID focus the bulk of their democratic decentralization work in the field, and allow other donors to take the lead in working directly with policymakers. USAID may be able to contribute to a more horizontal approach in policymaking by arranging focus group discussions with citizens and DPRD members.

So far, political parties have contested local elections essentially as an extension of their national campaigns. Direct election of local executives may shift the contests toward greater emphasis on local issues and platforms. Building strong local government associations that can engage national policymakers on crucial subnational issues can also help raise the profile of local perspectives in the public decentralization dialogue.

A few Indonesian NGOs have been able to define a useful role for themselves as CSOs in the context of provincial and local governance. But more are needed. Subnational and local governments, and the donors that work with them, need to develop explicit strategies for finding civil society partners, and enticing them to become increasingly active in local governance.

# 5.0 STRATEGIC AND PROGRAMMATIC RECOMMENDATIONS

## 5.1 KEY ASSESSMENT FINDINGS

Indonesia's first decentralization/local governance law was passed barely a year after the arrival of democracy in mid-1998. Ten years have passed since then, and eight years since the first round of local elections and the Big Bang provided subnational units the political, administrative, financial, and personnel wherewithal needed to fulfill their new responsibilities. While initial security, political, and financial challenges have been only partially overcome, provinces, cities, and regencies have made significant contributions toward building democratic decentralization. Threats posed by communal violence and independence movements appear to have diminished significantly. It is clear to the assessment team, and to the great majority of Indonesians, that decentralized local governance is here to stay.

Every day in communities across the country, “governance happens” and progress is being made. Elections are held and vigorously contested. In many places, budgeting and law making are becoming more transparent. CSOs are bridging the gap between politicians and citizens. In some places, concerted efforts are being made to improve services. Indonesia has emerged as a regional leader in decentralization in several respects. Examples include the broad range and importance of functions (26 in all, including basic education, health services, agriculture, transportation, and infrastructure) assigned to subnational governments; a bold experiment in transferring 2.5 million central government employees to provinces and local governments; and a concerted effort to enhance local accountability by introducing direct election of local executives. Democracy “comes home” for Indonesian citizens through opportunities to vote in local elections, attend council and commission meetings, or make direct contact with politicians and administrators, to help shape—often through CSO intermediaries—budgets and local ordinances, critique local service delivery, and participate in the early stages of local planning.

The findings of this assessment indicate that Indonesia's first decade of decentralization was essentially motivated by the objective of stability and easing regional tensions that were exacerbated by heavy-handed and centralized rule from Jakarta. In that regard, Indonesia's decentralization experiment has been a pronounced success. Today there is less of a risk of conflict due to the incorporation of Indonesia's multitudinous regions under a national state that currently ranks as fourth largest in the world. However, for this decentralization process to continue to provide a basis and platform for sustainable development, more must now be done to further prioritize the objectives of democracy and economic development at the local level.

While stability is likely to remain a dominant objective of Indonesian decentralization for the short-term, the assessment team sees increased opportunity for decentralization programming to focus on democracy and development in the next five years. Moving forward, the assessment team strongly believes the priority must be on building up the democratic elements of local governance for the next stage of

decentralization. Examples drawn from a small number of high performing provinces, cities, and regencies are needed to help generate additional momentum to further drive decentralization forward, and to help demonstrate the importance of decentralization to democracy and economic development as well as stability. The successes of those governments, if carefully documented, well understood, and widely publicized, can provide the guidance and inspiration needed by national policymakers, local leaders and administrators, civil society activists, and ordinary citizens during the next decade of decentralization. The team encourages USAID/Indonesia to explore programmatic options for helping a small number of provincial and local governments to develop those clear, coherent models of democratic local governance.

## 5.2 STRATEGIC CONSIDERATIONS

The development of a strategic approach to enhance Indonesian DDLG requires a clear sense of the constraints and deficits to be addressed, and the opportunities and footholds upon which to build. In terms of identifying the decentralization deficits, the assessment has indicated that there are major deficits in two key facets of democratic decentralization and less critical deficit in two others, as indicated in the following rank order:

- For decentralization to be able to deliver the concrete benefits needed to render the process more democratic, it is essential that the *autonomy* of local government be increased. Local government autonomy is earned over time, the product of trust on the part of central government officials, potential civil society partners, the business community, and ordinary citizens. Ultimately, provinces, cities, and regencies must seize the initiative, proving they are entitled to greater autonomy through consistent performance in service delivery, significant initiative in articulating local visions and action strategies, and by local generation of a substantial portion of their revenues. Insufficient autonomy is a major deficit that will take several years to overcome and will require confidence building through improved performance. Subnational governments need support in improving services and in introducing mechanisms to consult and collaborate with local citizens.
- *Accountability* in subnational governance is a complex, multi-pronged process, buttressed by formal reporting, approval, and auditing systems imposed by central government; by demands from NGOs, media, and ordinary citizens for greater responsiveness; and by honest efforts of local officials to respond to demands. The fundamental relationship, between citizen/voters and local executives and legislators they elect, is at the core of what may be termed the long route to accountability.<sup>25</sup> Indonesian decision makers have taken needed steps to ensure that this form of accountability is strong and, with additional election cycles, it can be expected to grow stronger. But elections in and of themselves are a blunt instrument for accountability, especially when it involves offices of complex local government that deal with tradeoffs between multiple demands and priorities. It is hence insufficient to attribute too much of the accountability function merely to election of local government officials, since it is generally difficult for voters to disentangle the candidate's positions on specific service areas that might directly affect the interests of voters. A more immediate form of accountability, which can be termed the short route to accountability, may be achieved through citizen participation in specific planning, implementation, and oversight activities, rather than just through the electoral process. This short route to accountability involves more immediate interactions regarding specific single service areas rather than the bundled representation issues associated with elections. Often this short route to accountability takes place on a one-to-one basis and involves concrete decisions and expenditures. At this point,

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<sup>25</sup> The terminology of "long and short routes" to accountability and the distinctions between them are elaborated in the World Bank, World Development Report 2004 (2003), p. 48.

Indonesia has not yet exhibited a proclivity towards this type of accountability, and citizens tend not to hold their local officials responsible for specific services. Whatever the reason, improving accountability within specific service sectors in Indonesia offers considerable room for innovation with promise for achieving significant impact in improving democracy at the local level. Accountability is an area of *major deficit*, where it is possible to work with partners and build on mechanisms already in place.

Another accountability issue in Indonesia that bears further investigation is in the relationship between local government employees and local elected officials. This is because personnel systems fall under the national civil service. There is thus a need to calibrate the need for accountability to local elected officials with adherence to civil service codes and practices. Getting this balance right will be a key factor in creating the appropriate incentives to render local officials most responsive to local actors.

- No Indonesian subnational governments have sufficient human and organizational *capacity* to fully exercise authorities provided under law. A first generation of elected officials, CSOs, and citizens are governance novices only beginning to learn the skills of democratic decentralization. In contrast, when compared to other local governance systems in the region, administrators in Indonesian subnational governments are relatively numerous, and have reasonable technical qualifications. While their performance is often inadequate, it is unlikely that generalized training will improve it. Alternative approaches to improving performance—e.g., learning by doing, changing incentive structures, and experimentation—may be more appropriate. This is a *moderate deficit* area both for governance novices and for local administrators. The group of governance novices, particularly ordinary citizens, is too large and diverse to be the subject of classic training programs. Local administrators should be targeted mainly for specialized technical training essential for undertaking new or altered job responsibilities. Perhaps the most important interventions to upgrade local capacity will be efforts to analyze performance incentives for local staff, and experiment with management approaches that require better performance. Hence, even though capacity is also a moderate decentralization deficit in Indonesia, two aspects of correcting this problem suggest that USAID not try to tackle it alone. First, there is the sheer scope of the deficit, which means that the GOI will need to take a lead in tackling it. Secondly, the need to improve performance incentives also must be addressed above all by the GOI.
- Despite legal and administrative shortcomings, subnational governments have adequate *authority* to proceed with their work and therefore the team found that shortcomings in authority represent a *moderate, not a major deficit*. Still, there are areas where the authority of subnational governments have been undermined by conflicting regulations, frequently altered procedures, competing services by central government units, and unfunded mandates. In addition, despite a broad commitment to decentralization, national institutions and political parties are reluctant to cede their power, and have made few efforts to adjust their activities to the new context. Hence the *de jure* authorities granted to local governments by the enabling regulatory framework generally exceed the *de facto* authorities that exist in practice. It will take some time before bureaucratic inertia from the previously centralized administrative systems gives way to greater innovation. As the autonomy of local government increases, there are thus already regulations on the books that will allow for an increase in the authorities that are actually exercised in practice by local officials.

Having identified and gauged the key decentralization deficits in Indonesia, the recommended strategic approach is for a USAID/Indonesia local governance program to concentrate on the promotion of **autonomy** and **accountability**. The autonomy objective would seek to improve service delivery in select sectors, increase community participation in setting visions and planning, and enhance the collection of

own source revenues. Subnational governments that depend on central government for the bulk of their expenditures are similar to teenagers who feel they are ready for adulthood, but depend on allowances and occasional gifts from their parents. The best way for the central government to support autonomy for local governments is to grant them the right to assess and collect taxes with significant potential for expansion, and to encourage them to bargain with local businesses and ordinary citizens to gradually ratchet up taxes and fees in exchange for better services and more favorable policies. Secondly, the Mission strategy would ideally focus on improving the accountability of local government, specifically in regards to transparency and oversight of service delivery in select sectors, namely the short route to accountability discussed above. Working to improve accountability over issues of specific and immediate interest to citizens will directly contribute to both broader democracy and development objectives.

The challenge of broadly improving the **capacity** of local government officials to better carry out their expanding duties needs to above all be addressed by the GOI, in part through putting in place more positive incentives for performance. The Mission might be able to provide some carefully targeted support in improving capacity in regards to the select service areas, but the Indonesians themselves are in the best position to address the capacity deficit. Finally, while there still remain problems with the **authority** of subnational government, this area of intervention is not recommended as being likely to lead to the most promising impacts at this time. Realizing the full potential of the policy reforms already put in place offer ample room for improvement. However the Mission should remain alert to opportunities and needs that become apparent during the implementation of a local governance program. For example, specific policy changes might be needed to facilitate the process of increasing own source revenues.

In terms of seeking to maximize impact with limited resources, USAID should consider carefully observed experimentation to usefully replace successive, non-cumulative legislation. So far, national level policymakers have attempted to “get the system right” through cumulative rounds of law making and myriad supporting regulations. As we have argued above, the results have been more positive than harmful. However, as Indonesia moves into the next sensitive phase of building viable administrative and fiscal systems to support the political progress already made, we believe a modified approach will be useful. We might call it “certified experimentation.” Carefully observed experiments, probably organized in a few key provinces, would introduce new strategies for building local autonomy and accountability, and careful application of social science methodology and statistical analysis could be used to learn what works and what does not.

### 5.3 RECOMMENDATIONS

Indonesian policymakers, local politicians and administrators, civil society activists, and ordinary citizens need a clear vision of how the *best* subnational governments in Indonesia actually perform. With a need for high performance models in mind, the assessment team envisions a follow-on USAID decentralization/local governance program that works with a few provinces and modest number of their constituent cities and regencies, within a framework of “certified experimentation;” supports a broad array of actors in governance; focuses on a few service delivery sectors; and emphasizes meticulous documentation and wide dissemination of processes and results. The following operational guidelines are suggested in order to maximize the cumulative impact of the recommended programmatic interventions:

***Build positive models of democratic local governance:*** While there is little potential value in presenting an *ideal model* of an effective local government, Indonesians need a better understanding of where the decentralization process is going, and how a well-run local government should actually work. Indonesians are looking for a few coherent examples of best performing provinces, cities, and regencies. A collection of *good practices* drawn from diverse local governments across the country does *not* meet the need. Ultimately, the best approach will be to assist Indonesians in selected communities to develop their own *authentic examples* of best performing local governments.

***Concentrate project activities in a few provinces:*** The most efficient way to do this is to work in a few provinces: at the provincial level, with selected cities and regencies, and where there are clear advantages, with selected *desa* governments. The selection of three provinces will provide an adequate cross-section. Concentrating activities within a concentrated territorial scope is the most efficient (i.e. less costly) means of generating spill-over effects that promote further momentum in the broader Indonesian decentralization process. Having multiple activities within the select provinces will also enable numerous actors to network and interact with one another, obtaining synergies in favor of democratic decentralization initiatives.

***Organize around a few sectoral management areas:*** To ensure field activities both *utilize* and *reach beyond* democratic processes, and achieve direct impacts on local residents, field activities should focus on no more than two or three service delivery sectors. The sectors we propose for the Mission’s consideration are basic education, community-level health services, environmental management, and improving the policy framework for small and medium business. In selecting sectors to work in, primary emphasis should be given to the relative importance local residents attach to each. Basic education will meet this criterion in all localities. A second “sector of emphasis” may need to await initial activity planning with local residents.<sup>26</sup> Activities in each sector might include:

- Assisting local governments to organize and facilitate sector-based participatory planning exercises in the chosen sectors.
- Providing initial secretariat services to local government/citizen committees as they monitor service improvement efforts in those sectors.
- Supporting establishment and operation of citizen-based groups in the selected sectors. This would facilitate point-of-service accountability. The purpose is to focus accountability and oversight mechanism on a single service within a local government jurisdiction, where citizens can see their interests most closely and therefore their incentives for participation are greatest. Examples of potential mechanisms might include parent/teacher associations, school committees, clinic advisory committees, or CBO campaigns on communicable diseases.
- Advising the DPRD as it drafts supportive legislation and reorganizes budgets.
- Supporting specific internal efforts by service delivery units to improve the transparency and effectiveness of their programs.

***Work up-and-down and across the governance system:*** By using service sectors as a focus for building stronger local governments, it will be possible to work “up-and-down” to help provinces, cities, regencies, and *desa* find their separate and complementary roles in providing basic education, delivering health services, improving environmental management, or promoting growth of small and medium businesses. Furthermore, it will be possible to work across the breadth of civil society—e.g., by working with national-level NGOs, local CBOs, local media, provincial universities, and religious associations—as well as reaching out to personnel of deconcentrated government offices while undertaking field activities. Particular areas of emphasis might well include: support to *women’s groups* as they review local budgets and lobby for a stronger emphasis on service quality in key sectors, and support to business associations or NGOs as they monitor and critique the performance of local governments in procurement.

***Build on products already developed, emphasizing several supported by USAID:*** Many organizations, notably including USAID projects and grantees, have already developed mechanisms for enhancing autonomy and accountability at the local governance level; e.g., the “technologies of participation” were

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<sup>26</sup> For a more detailed analysis of how appropriate sectors might be selected, see Appendix B.

first introduced to CSOs and local governments in North Sulawesi in 2002, and have been used in a variety of settings since then. USAID should catalogue these resources, avoid reinventing the wheel, and use all that makes sense in working with partner subnational governments.

***Bargain for a “certified experimental” setting:*** Rather than efforts to perfect the framework with additional generations of local government laws and regulations, we believe the best investment of donor and Indonesian time and money will be to develop a few of the coherent, positive models mentioned above. To ensure maximum learning from that effort, we suggest that serious effort be given to undertaking field work as a series of carefully observed “certified experiments.” Project managers and staff, local government, and civil society partners should all feel they have the needed freedom to test innovations and, occasionally, fail. We envision an advisory/oversight board consisting of senior policymakers, representatives of local government associations, Indonesian academics, and international experts to meet at least twice a year to observe progress made and to begin to develop coherent descriptions of how high performing governments succeed.

If the Mission is unable to obtain permission to structure its program through “certified experimentation,” the alternative is to work within the existing enabling environment for decentralization but to add a component that deals with national policy reforms over specific change elements. Most notably, such a change element would likely include the local revenue piece. As the implementation of the program highlights laws and regulations that need to be changed, technical assistance can help identify specific legislative reforms and policy changes that could be pursued at the national level.

### 5.3.1 Work at the Subnational Level

***Emphasize local revenue generation:*** We strongly recommend adopting work with local governments on enhancing their skills in generating local revenues as a major programmatic theme. If there is sufficient movement within the Indonesian government, this work might focus mainly on helping cities and regencies to significantly increase their income from the Land and Building Tax. Unless there is a major revision of the tax law, this approach is possible only if there is a special dispensation for experimentation by a small number of subnational governments.

***Support and advise local government associations as they seek an effective political role in national policymaking:*** While local government associations already exist, and offer useful services to their members, they have not yet assumed fully effective roles in the politics of policymaking. USAID may wish to explore the concept of an “association of associations” with the current groups, and assist by supplying expertise on policy research and legal drafting on a temporary basis. The work with local government associations should begin with support to provincial-level chapters of cities and regencies in partner provinces. Female executives and legislators within each province might be encouraged to form *women’s caucuses* and advised on how to play their role more effectively, perhaps under the guidance of respected former mayors and governors from the Philippines.

***Work to reform policymaking from the “outside in”:*** The assessment team does not recommend sustained assistance on policymaking at the national level as a major part of a follow-on project focused in a few provinces. (If such assistance is to be provided, it will probably be more appropriate to supply it through an alternate mechanism, perhaps analogous to the current Democratic Reform Support Project.) However, it may be worthwhile to entice central government officials toward greater openness in policymaking by offering ready-made opportunities for them to consult in project provinces; e.g., project staff can organize and facilitate policy-oriented focus group discussions with local citizens and local government employees, and arrange dialogues with DPRD members from across the province. In addition, a local governance program should coordinate with the Decentralization Support Facility (DSF).



### 5.3.2 As needed, Support Activities in the National Arena

***Get involved in national level policy when local circumstances indicate a need to do so:*** If specific opportunities arise to play a useful role in shaping national decentralization policy, e.g., a chance to help a few local governments test the feasibility of direct local control over the land and building tax, USAID should move with alacrity. However, we would recommend leaving generalized efforts to “get decentralization policy on the right track” to other donors.<sup>27</sup>

### 5.3.3 Engage with Civil Society

***Help local governments develop viable strategies for engaging with civil society:*** Many subnational governments already work with NGOs and universities on various substantive and community initiatives. However, local governments tend to be more open to “partnering” with civil society when the latter bring tangible assets to joint undertakings. As Indonesia’s decentralized governance becomes more democratic, it is also important that local governments serve as a forum for advocacy efforts by CSOs seeking to pursue their interests by influencing local public decision-making. A greater integration of a range of civil society actors into the local government process will be an important element in increasing accountability.

***Help civil society partners to build “next generation” skills:*** NGOs, universities, business associations, and other civil society organizations need to respond to the needs of local governments by developing new knowledge and skills areas. NGOs need to reach beyond the social science and humanities graduates they usually hire, seeking job candidates trained in business, economics, engineering, and applied science. They also need to develop up-to-date skills in such skills areas as web searches, facilitating public dialogues, and negotiating working agreements with local government partners. Universities need to catalogue the full range of technical and managerial skills they can share with local governments. USAID may wish to support selected civil society or university partners to upgrade their skills as they work in project provinces.

## 5.4 RESULTS FRAMEWORK RECOMMENDATIONS

Constructing a framework for the results to be achieved under a USAID/Indonesia local governance program requires clear identification of which of the three DDLG goals (stability, democracy, development) are to be prioritized and weighted more heavily. This assessment of Indonesia has indicated that while the decentralization program was originally motivated mostly to promote stability, priorities are now beginning to shift more toward democracy, as social schisms in the archipelago have appeared to become less volatile or at least of less immediate concern to the GoI and international community. In addition, the assessment findings indicate that in order to most effectively advance decentralization in Indonesia, concrete improvements in the level of economic and social development must result from this political reform process. The most tangible way for this to happen is through an improvement in services. The principal goal recommended in this report is thus democracy, with development as a secondary goal of the decentralization program. The assessment recommends that these two goals be pursued by addressing key decentralization in the autonomy and accountability areas.

In addition to specifying the goals and decentralization themes being pursued from the DDLG program platform, the assessment also provides guidance as to the appropriate arena (national, subnational, or civil society) in which program interventions would be most effective. The recommendations of this

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<sup>27</sup> However, support for another round of the Stock Taking in 2010 may be very useful.

assessment point to the subnational arena as the centerpiece of interventions, with more modest interventions at both the national and civil society levels.

The highest level objective would thus be ***more transparent, responsive and effective local government***.

Under this, two Intermediate Results are proposed:

*IR 1: Greater transparency and accountability in the delivery of local services*

- More transparent information available to public in regards to service delivery
- Central oversight systems exist to monitor local government performance in select service areas
- Greater citizen participation in overseeing local government

*IR2: Increased autonomy for local governments to respond to citizen needs and demands.*

- Improvement in own source subnational revenue generation
- Number of concrete plans for service extension or quality improvement prepared and implemented
- Increased ability of local governments to comply with national standards
- Number of public-private partnerships for service delivery.

The above democracy objectives of decentralization are currently on the cutting edge of decentralization in Indonesia and while more difficult to achieve than the stability-oriented results of the first generation of Indonesian decentralization, are likely to do more to qualitatively improve the process of reform. Achieving development results from a local governance platform, however, is also essential to the sustainability of the decentralization process, since the tangible developmental benefits from improved local governance will help build confidence and momentum to advance the reform process further.

#### 5.4.1 Measurement Challenges

The particular strategy proposed in this assessment for USAID's next generation of democratic decentralization programming poses at least three substantial measurement challenges: 1) there is a need to measure incremental progress toward building a small number of *consolidated models of high performing subnational governments*; 2) working in specific service delivery sectors implies that, ultimately, there will be *measurable results* extending well beyond incremental administrative changes; similarly 3) activities aimed at increasing own source local revenue generation should be measurable through *annual income increments*.

- ***Empirical models of high performing subnational governments:*** The state-of-the art in measuring results of local governance strengthening programs has been the identification of a catalogue of good practices spread across a large number of local government partners. That is, success was assumed if a large number of governments adopted at least a few improved procedures. In contrast, the notion of a "consolidated model" implies that a smaller number of partner communities will adopt a broader range of good practices, which will in turn provide Indonesians with a clear vision of what to expect and demand from subnational governments.
- ***Measurable impacts in service delivery:*** High-performing subnational governments must be able to achieve measurable impacts in such service sectors as education and health; i.e., activities aimed at strengthening basic education may include good practices such as activist PTAs and well-attended mentoring programs. But, ultimately, good practices should lead to measurable impacts on education and student performance. These might include improved student performance on standard exams, higher student acceptance rates for secondary and tertiary

education, or lower cycle costs (as student failure rates fall, and individuals complete basic schooling in fewer years). Activities aimed at improving health services may include good practices such as expanded clinic hours, shorter waiting lines, or more frequent well baby clinics, but should also result in lower morbidity and mortality rates

- ***Significant annual increments in own source local revenue generation:*** If possible, the next generation of programming should involve “certified experiments” to increase own-source revenues in a few partner local governments. For the first two or three years, it may be sufficient to measure results in terms of newly adopted assessment and collection procedures. However, before the end of the project, it should be possible to measure significant increments in own-source revenue generated.

## 5.5 CONCLUSION

The Government of Indonesia has successfully inaugurated a decentralization process that has overcome initial hurdles of doubt over democratic reform. A critical threshold has been passed that allows for new horizons in improving the democratic qualities of local governance and in achieving tangible benefits for communities in their daily lives. The results framework proposed here goes well beyond the first generation of decentralization reform in Indonesia to not only consolidate and build on gains made to date, but to take important strides in rendering local government more participatory, effective, and responsive.

# APPENDIX A: THE DEMOCRATIC DECENTRALIZATION AND LOCAL GOVERNANCE FRAMEWORK

The assessment framework has been developed by the DCHA/DG office. Dr. Ed Connerley has worked with a team of advisors, mainly political scientists, to develop a set of lucid concepts arranged in five complementary facets of change, for assessing, conceptualizing, planning, and implementing Democratic Decentralization and Local Governance. The brief Democratic Decentralization Strategic Assessment Guide and Decentralization Assessment Process Guide are based on a longer Democratic Decentralization Programming Handbook.<sup>28</sup>

The draft Guide notes that:

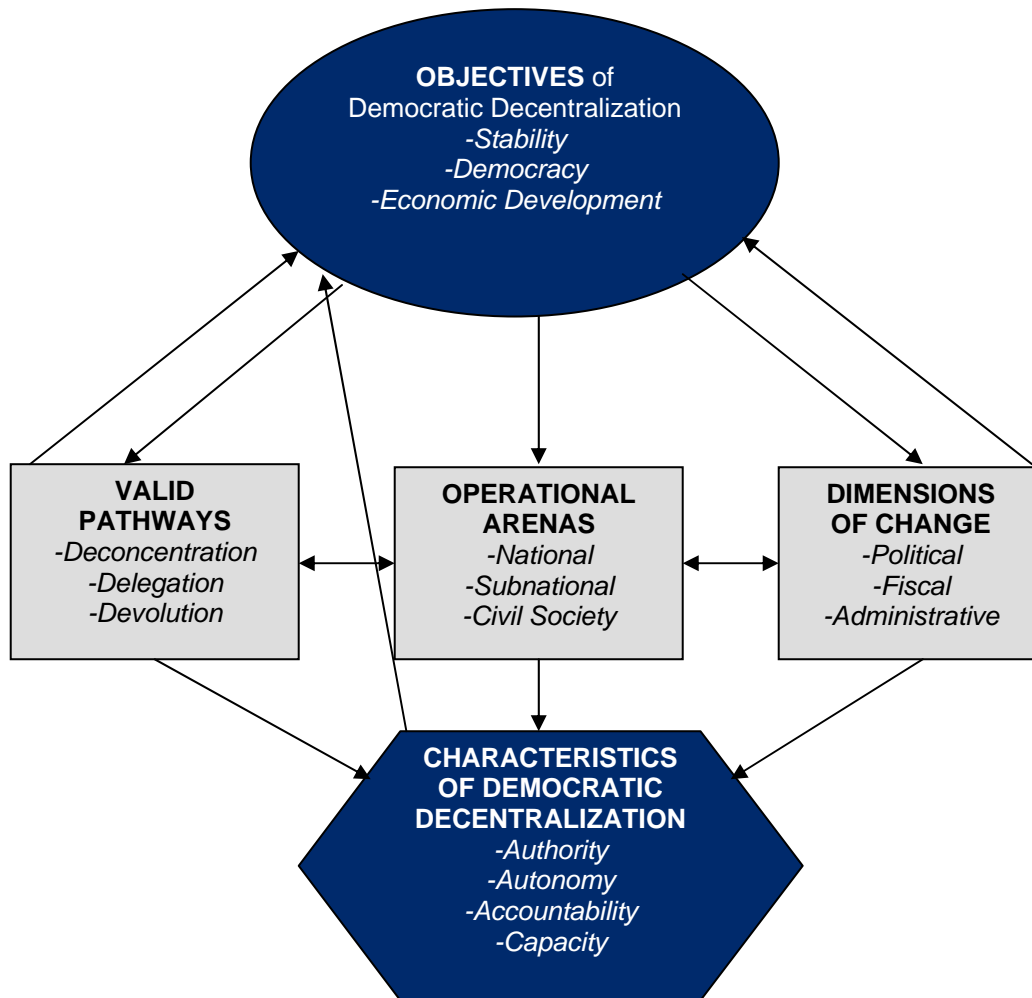
A decentralization assessment should be conducted once it is determined that a decentralization program should play a role in the given country assistance strategy. Ideally, the assessment will assist the USAID programmers to engage in a dialogue with counterparts and partners that sets the stage for the design of the new program. The assessment will contribute to the identification of the critical decentralization deficits; the environment for decentralization at the national, subnational, and civil society levels; and the political feasibility of different types of reform and donor intervention to support such reform.

In order to focus internal discussions, and sometimes to open discussions with informants, the assessment team prepared a diagram of the Framework:

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<sup>28</sup> Assessment Guide—21 pages; Process Guide—18 pages; and Democratic Decentralization Handbook—123 pages.

**FIGURE 2. DEMOCRATIC DECENTRALIZATION STRATEGIC FRAMEWORK**



Following the flow of the diagram, the initial decision to decentralize begins with an explicit or implicit set of *objectives* that shape implementation of the reform process. While these objectives almost invariably include seeking *stability*, enhancing *democracy*, and accelerating *economic development*, generally one or two of these are prioritized at a particular point in time. However, as decentralization proceeds and particular reforms succeed or fail, objectives almost invariably shift, calling for a different alignment of *pathways*, *operational arenas*, and change *dimensions*.

Valid *pathways* toward democratic decentralization include some combination of *deconcentration* of central functions and authorities from national agencies to their outposts in the regions; *delegation* of specific tasks and authorities from the national level to governments or deconcentrated units at the provincial or local level; and *devolution* of authority to elected local governments. In contrast to the strong emphasis in the current democratic development literature on devolution of central authority to elected local governments, the Framework encourages balanced attention to deconcentration of central government functions *and* to devolution.

The *operational* arenas defined within the Framework call attention to the roles of both national and subnational actors, and encourage an assessment of the varied roles played by civil society actors. By

reminding observers that democratic decentralization demands new behaviors both at national and local levels of government, and within civil society, the Framework encourages a richer, more productive analysis of problems and opportunities. This lessens the likelihood that description will be limited to a standard catalogue of local government weaknesses (although the weaknesses are real enough), and increase the probability that performance shortcomings of national government and civil society actors are also exposed, and appropriate assistance interventions are identified.

The three *dimensions* highlighted in the Framework remind observers that *political* changes essential for democratic decentralization—competitive elections, political parties, space for elected legislators and executives to play their respective roles, new traditions of citizen participation—must eventually be complemented by corresponding *fiscal* and *administrative* reforms. Newly empowered local governments require sufficient resources through block grants, sectoral or program funding, and locally-generated revenues to meet assigned responsibilities. Deconcentrated units of national agencies need sufficient, flexible budgets to enable them to collaborate with local governments. Administrative reforms, notably in personnel management, service delivery, and performing regulatory functions, are essential for long-term strengthening of local governments. Similarly, deconcentrated units require reforms in managing field personnel and establishing appropriate incentives for a responsive, collaborative working style.

Over time these four facets of democratic decentralization interact in complex, often unpredictable ways to shape local governance, resulting in each country in a unique array of laws, regulations, institutions, interest groups, practices, skills, habits, insights, and prejudices that lead to a particular alignment of systems of *authority*, *autonomy*, *accountability*, and *capacity*.

Local *authority* is established to some degree when subnational governments and deconcentrated national government units are assigned to perform broad, permanent functions by hierarchical superiors, and delegated specific responsibilities (which may be arbitrarily withdrawn) by higher levels of government. But the authority of subnational governments is firmly established when their status is legitimated under a constitution or specific laws or decrees; when they are specifically empowered to serve citizens, who are in turn aware of what administrators and elected leaders are authorized to do; they are expected to perform their functions in a rule-based manner; they are answerable to citizens through periodic local elections; and they are allowed to perform additional functions that are rooted in tradition, if these are not prohibited by formal law.

*Autonomy* is conferred on subnational governments and deconcentrated agencies when higher levels allow sufficient latitude for local actors to perform their assigned roles. Specifically, autonomy is conferred on subnational governments when they are allowed significant control over budgets, administrative personnel, and revenue generation. On the other hand, autonomy is undercut when higher government levels decline to alter their behavior by adopting new roles in support of democratic decentralization, and regulations and procedures imposed from above undercut the substance or spirit of authorizing laws. Ultimately, though, autonomy is earned, as subnational governments gain the trust and support of local citizens through effective services and programs; entice those citizens into becoming willing taxpayers; and significantly increase locally-generated revenues to be used in an autonomous, responsive manner.

Local *accountability* is achieved through a complex, constantly evolving set of mechanisms and relationships. Varied mechanisms strengthen the link between local governments and deconcentrated units and citizens, the core relationship in democratic local governance. For local governments, accountability begins with competitive elections that enable citizens to remove under-performing politicians every few years. Additional mechanisms to improve accountability may include complaint adjudication boards, publication of minutes and budgets, public hearings on budgets or environmental impacts, citizen advisory committees and report cards, and local government employee reviews that include citizen feedback. While many central government officials exaggerate and overplay their role, a substantial degree of accountability to the center is required. Central government officials elicit

accountability from subnational institutions through regulations, reporting requirements, adjustments to fund flows, and explicit punishments for corruption or failure to meet reporting requirements. Central audit agencies and inspectorates can ensure that services are adequate, funds are used effectively, procurements are transparent, and elections are legal. Democratic decentralization is also strengthened by horizontal accountability—between legislators and executives, politicians and civil servants, and among deconcentrated personnel of different central departments. Finally the media and a wide range of civil society organizations can play a useful role in ensuring accountability in democratic decentralization.

Adequate *capacity* is essential if local governments and deconcentrated national agencies are to perform functions local residents expect of them. The capacity of subnational governments and deconcentrated central government offices can reach satisfactory levels if elected leaders have adequate control over locally assigned employees; assigned employees are adequate in number and have received formal training consistent with their work responsibilities; training systems are in place to impart specific new skills as they are needed; and employees and their supervisors work under appropriate incentive structures. At the same time, civil society must develop sufficient capacity to hold local administrations and governments accountable. And even central agencies must develop new capacities to support their new role in enabling, coordinating, and legally overseeing subnational governance units.

The broad application of the Framework is summarized in the Democratic Decentralization Handbook as follows:

USAID should seek to optimize the types and levels of authority, autonomy, accountability, and capacity that will enable decentralization to achieve its main goals (stability, democracy, and development) in each of its three major arenas (national, subnational, and civil society).

In undertaking this initial democratic decentralization assessment, the Indonesian team elucidated several specific applications of the Framework. Notably, it can:

- *Shape information gathering:* The Framework diagram (Figure 2) was used by team members to shape interview questions, and as a starting point for discussion during interviews.
- *Structure description and analysis:* The outline of this report flows directly from the Framework.
- *Guide development of assessment team recommendations:* The logic and comprehensiveness of recommendations can be tested against the Framework.
- *Support preparation of a democratic decentralization sector strategy:* The diagram can be used to stimulate and shape exploratory discussions, and to test the validity of the strategy as it is developed.
- *Shape design of projects within the sector:* The diagram can be used in conceptualizing specific projects, testing the “fit” between complementary projects, and can be included in requests for applications (RFAs)/request for proposals (RFPs) to guide bidders.
- *Elucidate and help to solve a particular implementation challenge:* The Framework can be used in investigating a particular implementation challenge; e.g., which level of government should be responsible for the school inspectorate function? How can a government unit (rather than the donor project) be motivated to accept the responsibility for sharing “good practice” information?

# APPENDIX B: A MATRIX FOR SELECTING APPROPRIATE SERVICE SECTORS

Possible Service Sectors	Direct Impact on Citizens/Families	Broader Impact on Community	Availability of Good Practices	Replicability of Good Practices	Comments
<b>Basic Education</b>	Most families have students or potential students at some point during their developmental cycle. Education is often the most promising path to economic mobility	Higher education levels for citizens (particularly women) bring innumerable positive impacts in—health, schooling for the next generation, political participation, economic productivity	Numerous good practices are known: –PTAs; –Scholarship programs; –Tutoring programs; and –Community volunteers, etc. Minimum service standards are being set by government	Most good practices can be introduced in virtually any receptive community	<i>The assessment team recommends adoption of basic education as a focus sector</i>
<b>Community-Level Health Services</b>	All citizens deserve adequate basic health services. Poor health requires direct expenditures on treatment and lessens household productivity. Families are generally more aware of the need for curative services than for preventive measures	Poor health across a community limits productivity and (probably) entrepreneurship. But the societal costs of poor health and benefits of good health are not easily observed at the community level	Good practices are known: –Health volunteers; –Information campaigns; –Well baby clinics; and –Vaccination campaigns And central government is setting minimum service standards	Good practices can be introduced in receptive communities. But, some problems are endemic in some communities, not others. Increasing reliance on private providers, requires more sophisticated policy responses	<i>The team recommends careful consideration of health as a focus sector, but only after detailed review with USAID colleagues</i>



<b>Environmental Management</b>	Most citizens are affected to some extent by poor environmental management. But negative impacts may not be readily observable	Communities face varied environmental challenges: water or air pollution, poor solid waste disposal, denuded forests, retreating ground water, over fishing of fresh or marine waters, etc.	Community-level good practices are known in each of these sub-sectors, but the particular technical challenges vary greatly by sub-sector	But, there needs to be an awareness of each problem, and a willingness to expend resources to solve it. A different array of challenges in each locality makes it difficult to allocate appropriate support services	<i>The team recommends a cautious approach, getting involved only if a particular sub-sector (e.g. provision of water services or solid waste disposal) can be pursued in several communities</i>
<b>Improved Policy Environment for Small and Medium Business</b>	Only a minority of families (but a substantial minority) are directly involved in operating businesses	But, a varied array of small-and-medium businesses improves services, creates jobs, and increases opportunities for local revenue generation	Community-level good practices—one stop shops for licenses and permits, improved parking and traffic management, better garbage collection, street lighting—are known	In order to work toward business-friendly services and policies, local governments may need the guidance of time-consuming surveys, or regular consultations with business people	<i>The team recommends a cautious approach, getting involved only if there is a pre-existing commitment to work in this area in partner communities</i>

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